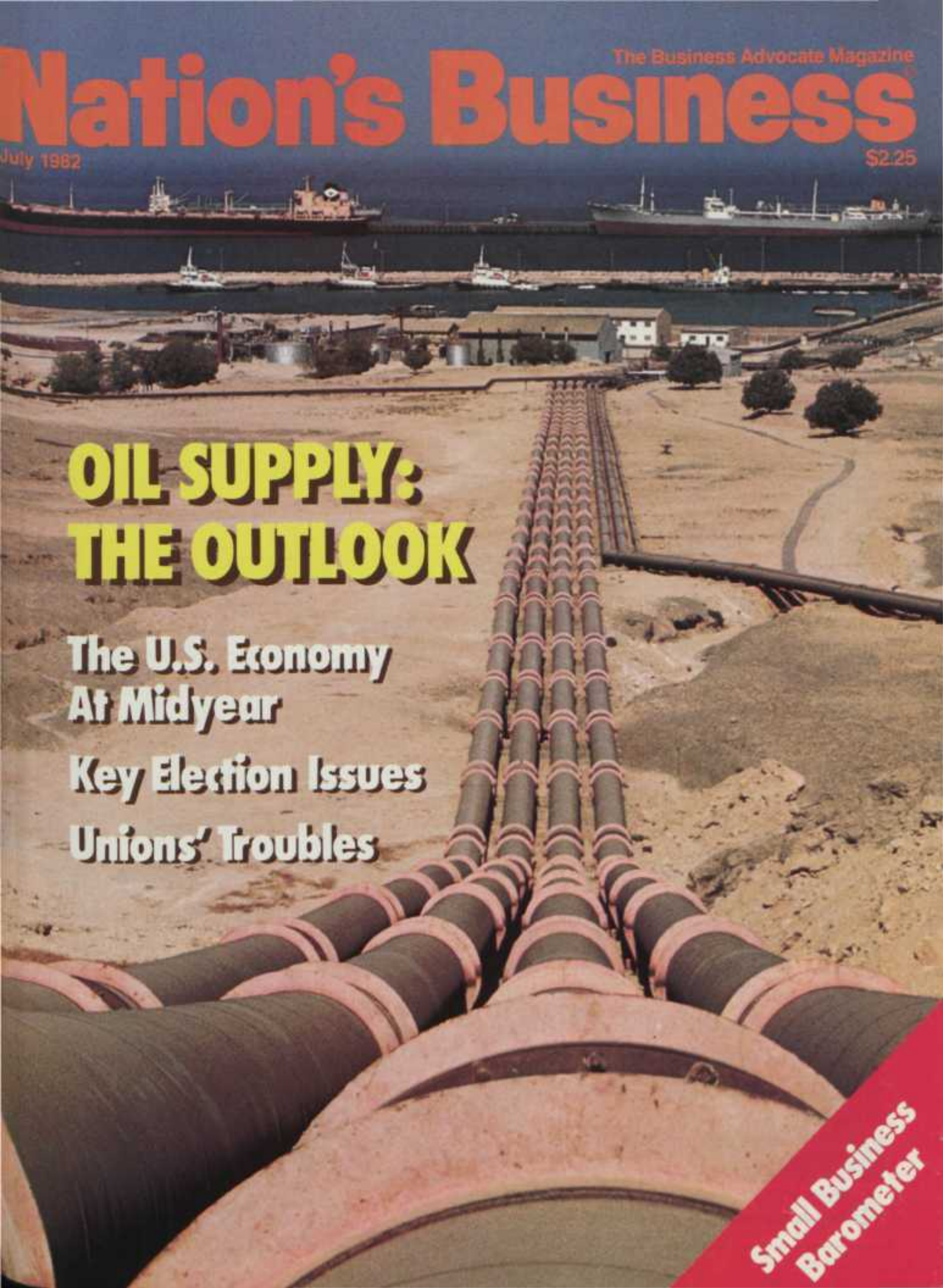
The Business Advocate Magazine

Nation's Business

July 1982

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OIL SUPPLY: THE OUTLOOK

The U.S. Economy At Midyear

Key Election Issues

Unions' Troubles

Small Business Barometer

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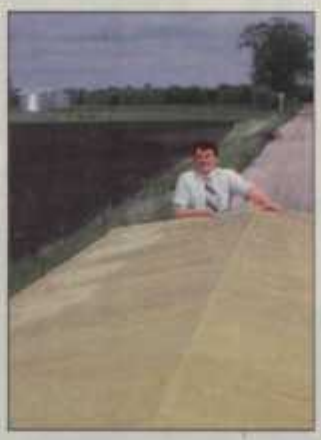
Oil Outlook

Cover Story: The oil glut is ending, and U.S. imports will be rising again. The strength of the recovery will affect the size of the increase. Cover Photo: A loading facility in the Middle East. **30**



Rebound-Bound

As America's economy edges toward recovery, Congress is on the spot. Its fiscal decisions will be a key to the length and strength of a revival in which housing is not expected to lead the way. **34**



On a Shoestring

Edward Shorma, who is the Small Business Person of the Year, built a one-man shoe-repair shop into a diversified company with products that include truck covers like the one shown above. **44**



Unions' Woes

At age 100, the U.S. labor movement is up against major problems and, some experts say, an uncertain future. But AFL-CIO President Lane Kirkland holds that unions can adjust to the challenges. **50**

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Cover photo: Tor Eigtind—Black Star. Photos this page (starting second from left): Herman J. Kokojan—Black Star; Coburn Hvidston—Fargo Forum; James Nachtwey—Black Star.

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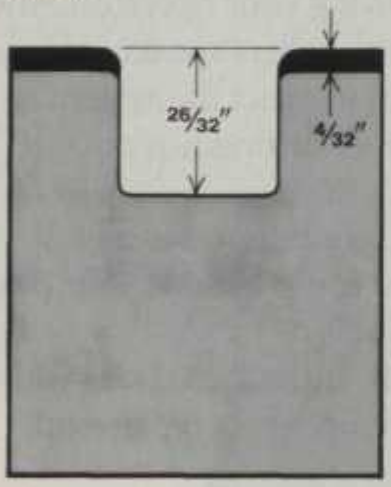


GOODYEAR

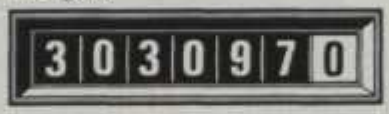
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WASHINGTON LETTER

▶ BUSINESS TAX INCREASES of all kinds look attractive to legislators charged with finding extra $20 billion in revenue for fiscal 1983. Politicians regard such increases as relatively painless because they don't think voters understand that individuals pay the bill. Under consideration: Higher gasoline tax or new petroleum import levy, stiffer minimum corporate tax, reduction of leasing deductions, lower depreciation allowances, corporate income surtax. Hot prospects change frequently, depending on whose lobbyists are making most convincing defense.

▶ INDIVIDUAL TAXES may go up, too, but not through rate hikes. Chances for repeal of third-year income tax cut look less than 50-50. Deductions are more alluring target for congressmen--only 30 percent of taxpayers itemize, and Republicans are eager to defuse charge that they favor wealthy. Deductions in danger: interest on consumer loans, state and local taxes, and 3-percent-of-income trigger point for medical expenses, which might be raised to 10 percent. Also, part or all of such employe benefits as employer-paid insurance premiums might be declared taxable income.

▶ HORNET'S NEST has been stirred up by Pension Equity Tax Act (H.R. 6410), introduced by Rep. Charles B. Rangel (D-N.Y.) and backed by Reagan administration. Proponents say it would make pension-plan tax breaks more equitable and save some revenue now lost to exclusions. Opponents say it creates new inequities and could result in weakening or scrapping of many plans. Entrepreneurs and incorporated professionals would be especially hard hit. Experts give bill fair chance for passage, due to frantic congressional search for additional revenue sources.

▶ BITTER SQUABBLING over where, how and when to raise taxes is moving long-shot concept of flat-rate tax closer to post position. Flat-rate proposals usually feature large personal exemption, with all income above it taxed at same rate --usually somewhere in 10 percent to 15 percent range, depending on size of exemption. This issue will get lots of attention in next year or two. "There's quite a cult building up around that," says House Ways and Means Committee member Barber Conable, Jr. (R-N.Y.). However, he thinks enthusiasm is limited to those in higher tax brackets who have more complicated returns than most people.

▶ NEXT CRISIS? Plight of federal interstate highway system is due for some attention. Still not completed, system is wearing out. Congressional Budget Office estimates that even a scaled-back program will need at least $4 billion a year more in construction and maintenance funds than is now provided.

▶ TRADE YOU FOR IT. IRS is checking tax returns, trade publications and even local business organizations for clues to existence of barter exchanges. Exchanges considered suspect will be examined thoroughly. Their records of member transactions will be compared with members' tax returns. Government sleuths see big potential for finding tax evaders in noncash commerce.

▶ DEREGULATORY DEVELOPMENTS: Some relaxation of Delaney Clause has been recommended by Reagan administration study group. Clause requires ban on food additives that cause cancer in

experimental animals, even if experiment used dosages far beyond normal human exposure. Staff of Federal Trade Commission has recommended dropping effort to require that food manufacturers disclose additional content data in advertising and on labels. And Justice Department has issued more permissive guidelines for corporate mergers.

▶ REREGULATORY DEVELOPMENTS: Rules to require that sodium content of some food products be listed on label have been proposed by Food and Drug Administration. FDA also wants to define such terms as "low sodium" and to set standards for their use. Environmental Protection Agency is pondering deletion of 27 chemicals from list of those approved for domestic use. Data from manufacturers were incorrectly submitted, says agency. Chemicals not listed on EPA inventory cannot be manufactured or used in United States.

▶ SPACE RACE PACE may again become political issue. Report from Congressional Office of Technology Assessment sees danger that United States will lose its technological lead to better-focused foreign competitors--specifically Japan and Western Europe. In these countries, report notes, "private and public sectors can work well together." U.S. government is also criticized for failing to define goals of American program.

▶ BIGGEST GARAGE SALE. Numerous interested parties are trying to guess what federal lands will be included in 35 million acres Interior Secretary James Watt says he is "considering" selling. So, apparently, is James Watt. He has asked National Association of Realtors for recommendations. Western grazing lands and surplus military property are best bets. Ruled out: parks, scenic and wildlife areas, and lands over mineral resources.

▶ A GOVERNMENT INVESTIGATION of a government investigation discloses need for further investigation. General Accounting Office, congressional watchdog, says Labor Department and IRS probes of Teamsters' Central States Pension Fund were "incomplete and hampered by poor management, ineffective coordination and staffing problems." Fund is being reinvestigated. First effort took six years and $8 million.

▶ FEDERAL WORKERS receive salaries that average 35.5 percent higher than private sector salaries, 42 percent higher than those of state and local government workers, and 52 percent higher than pay in manufacturing. In view of these and other federal benefits, U.S. Chamber of Commerce suggests that freezing federal pay and pensions for fiscal 1983 would be equitable way to help reduce budget deficit.

▶ FEDERAL JOBS--at least 135,000 of them--could be taken over by private firms, according to General Accounting Office. GAO says its figure comes from calculating impact on federal work force if all agencies farmed out same percentage of their work as Defense Department. Other estimates of federal jobs that could go to private sector have ranged up to 400,000.

▶ CRISIS RELOCATION, which envisions moving urban dwellers to country if nuclear war threatens, may have lost some friends in Congress last month. Officials of controversial program nervously admitted, under congressional grilling, that members of Congress had not been designated "critical workers" --those who would be evacuated first, if it ever came to that.

▶ LEADING INDICATOR? Staffs of 25 largest law firms in Washington continued to grow last year, but at slower rate than in previous years. Largest Washington-based firm is Covington & Burling, with 219 lawyers.

▶ FUSS & FEATHERS. Rep. Peter W. Rodino, Jr. (D-N.J.) implores his colleagues not to refer to budget proposals as "turkeys." It's giving turkeys a bad name, he says.

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Give the Small Guys a Break

Every time I read an article about the small business man or woman, I cringe. Somewhere, as there was in "Small Business Speaks, Government Listens" [May], there will be something about poor management.

Small business men and women aren't managers. We are risk takers, hardworking entrepreneurs with ingenuity and a desire to be independent. We learn management; we don't inherit it. We have to make decisions, right or wrong. We take chances, but we learn from our mistakes.

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DANIEL H. STROH
Owner and President
Midwest Truck Sales
Sioux Falls, S.D.

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Ask Sprinkel's boss

In your May Outlook item, "Money Funds and the Money Supply," Beryl Sprinkel, Treasury under secretary for monetary affairs, is quoted as saying: "I see no reason for changes in regulations or in the Federal Reserve's powers [to impose reserve requirements on money-market funds]." Could that position be simply because Treasury Secretary Donald Regan is loyal to his former employer, Merrill Lynch?

SAM HOSTETTER
President
Tri-County Bank
& Trust Company
Roachdale, Ind.

Bubble with a pin hole

Re: "Why Business Wants the Clean Air Act Changed" [June].

The act, as it stands today, is a paper mountain. But it can be made workable just by changing the definition of "source." Today "source" means smokestacks, vent pipes and virtually any emission point. It is madness for an industrial plant having thousands of such sources to file thousands of permit applications and amendments whenever a change is made. So I recommend changing the definition to mean the entire site. This would allow a plant to bank emissions and create internal off-

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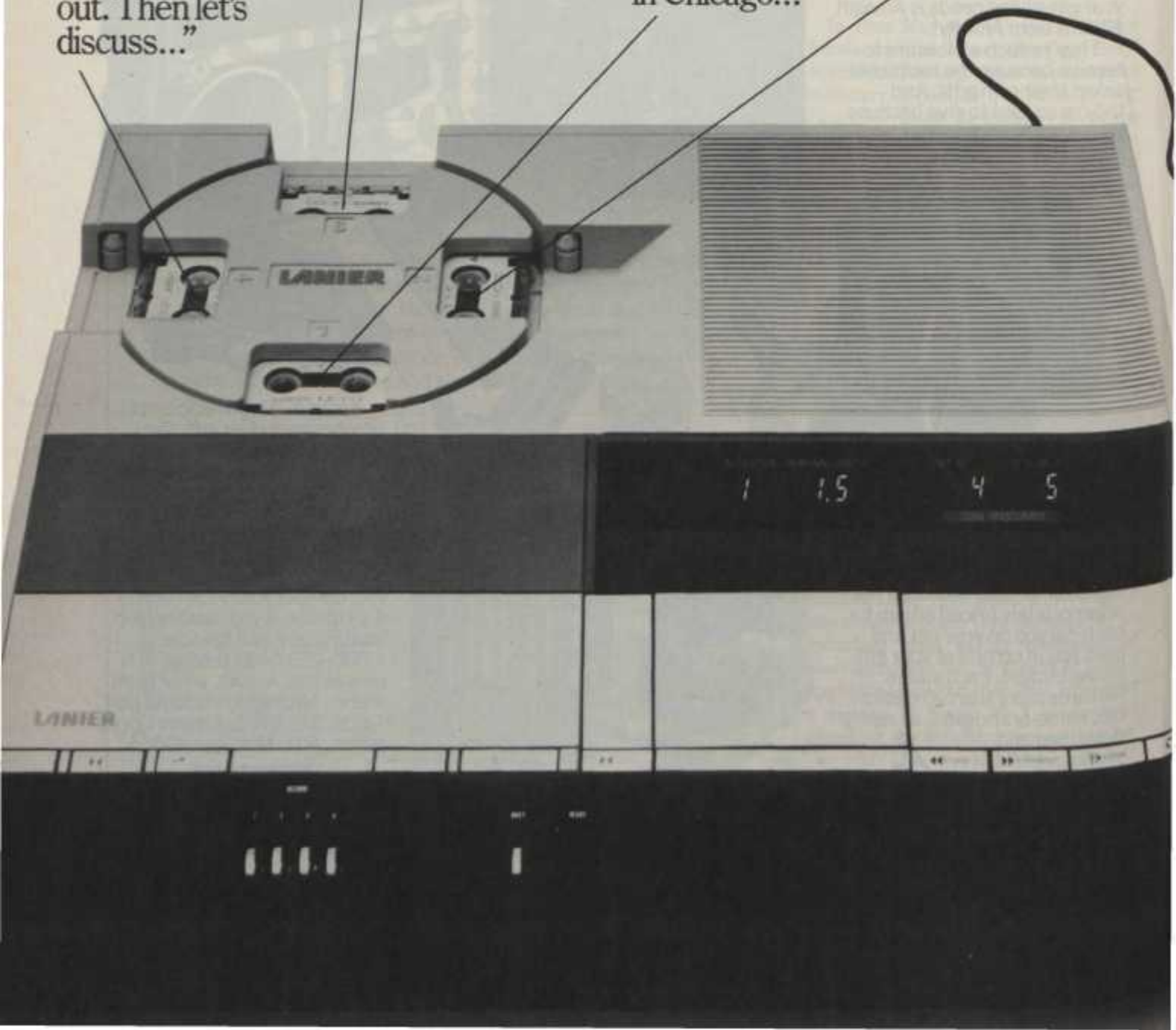
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—*Arnold Palmer*

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sets so long as it met gross emission standards. It would be sort of a bubble with a pin hole.

The Clean Air Act has been effective. However, the cost of processing the paper work needed to achieve its goals has been inordinately high. Keep the goals and eliminate the paper—and the Clean Air Act will be something everyone can cheer about.

FRED ELLERBUSCH
North Plainfield, N.J.

Know nukes or no nukes?

Re: James J. Kilpatrick's "Equally Vulnerable, Equally Dead" [May].

Kilpatrick implies that Jonathan Schell's book *The Fate of the Earth* is unique and seminal. Where has Kilpatrick been these last few years that he does not know there has been a plethora of such books? Unfortunately, nearly all have had the same fault as his column: After describing the problems of living under the threat of nuclear war, they leave us dangling without practical alternatives.

T.N. BUSCH
Shooting Range Consultant
Minneapolis, Minn.

Kilpatrick has a valid fear of nuclear weapons. However, it is this very fear that keeps skirmishes from escalating into global warfare.

Instead of abandoning our nuclear defenses, we should elect officials who will use them to protect our nation and the world.

DEBBIE G. LACEY
Arlington, Tex.

The issue of nuclear arms transcends political and social identities. It was encouraging to see the same thought echoed by such a respected conservative as Kilpatrick. The threat of nuclear war should be of concern to us all, no matter what our political denomination. A bomb dropped on Los Angeles or, for that matter, Minsk will not discriminate between the children of Republican, Democratic or Communist parents.

What's at stake is not the purity of our political ties but the existence of our species. It's time for traditional conservatives to wake up to that fact.

JACK AND CAROL TALLEY
Beaverton, Ore.

A good investment

Re: "Joining the War on Drug Abuse" [June].

I commend NATION'S BUSINESS for a very useful article about programs that help employes fight drug, alcohol and emotional problems and about how such investments by employers yield high returns. The article cited examples of those returns but might have mentioned in perspective the savings some companies have experienced.

For example, Firestone last year saved $1.7 million by helping its employes and their dependents who have alcohol and drug abuse problems. The savings were realized in reduced absenteeism, fewer accidents, less sickness, and lower medical and surgical costs. Firestone has saved more than $2,200 annually for each employe in its assistance program.

Our program was established 11 years ago. To date four of every five of the more than 5,400 people who have taken advantage of the program are recovering. In 1981 a total of 617 people participated in the program, and for every $1 we invested to help these people, there was a $3 to $5 return.

I encourage every business to have an employe assistance program.

EDWARD L. JOHNSON
Manager
Employee Assistance Program
Firestone Tire & Rubber Company

Torn up in Florida

I have always been proud to display NATION'S BUSINESS in my reception room. But for the last several months I have noticed a strong pro-Reagan, anti-Democrat bias in your reporting and editorials. You obviously realize that Reagan's economic policy is in trouble, but you are so committed to supporting his programs that you go out of your way not to tarnish his image.

I tore up the issues; I did not want to expose my customers to such bias.

EDDIE L. MILLS
President
Mills Anderson Opticians
St. Petersburg, Fla.

Decency, a la 1920

Re: James J. Kilpatrick's "Common Sense and Censorship" [June].

With some good old 1920s common sense and decency, books containing indecent matter would not be in any school library.

And 17-year-old kids and their mothers should know that it is their First Amendment right to go buy such books if they wish to read them.

MARWOOD DAVIDSON
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BY JAMES J. KILPATRICK

Stumbling Toward the Chasm



SUPPOSE we talk common sense, for a change, about the Social Security system—where it is heading and what we can do about it. Sad to say, we haven't heard much common sense lately. What we have heard on Capitol Hill is a combination of raw demagoguery and eye-rolling emotionalism. On both sides of the aisle we have witnessed some truly disgraceful exhibitions of political cowardice. Most of the members are so paralyzed by fear of the old folks' vote in November that their sense of responsibility has been numbed.

Let us reason together. And let us begin by dispelling a few of the myths that obscure the realities.

An abiding myth is that Social Security is "insurance." This is what the law calls it, an Old Age and Survivors Insurance program. Even so intelligent a senator as Daniel Patrick Moynihan of New York appears to believe this. "Social Security," he says, "is not a welfare system. It is an insurance system." With deference to the gentleman, this is nonsense. Insurance contracts have certain common features: The benefits are tied actuarially to the premiums; the beneficiaries may be designated by the owner of the policy; if the insured dies at, say, 25 or 30, leaving no dependents, the proceeds are payable to his estate. None of this is true of Social Security.

A second myth has to do with the "trust fund." None of our Social Security taxes are actually held in trust for us. The taxes come in; the benefits go out. At the moment, we are paying out one million dollars *an hour* in excess of what is coming in. At this rate, the principal fund will run dry by next July. The Medicare and disability funds will fall short in 1984. The taxes now paid by 116 million workers simply will not finance the promised benefits for the 36 million persons on the receiving end.

A third myth results from a semantic sleight of hand. We are deceived into supposing that Social Security is financed by "contributions." Again, the law itself misleads us: It is the Federal Insurance Contributions Act. These are not contributions. These are taxes—increasingly burdensome taxes. In the current year, every person earning at least $32,400 will pay a tax of $2,170. This must be matched by his employer. For millions of Americans their Social Security taxes far exceed their income taxes, and heavier burdens are yet to come. By 1987, the maximum tax may be more than $3,025.

The most stubbornly held myth, cherished by those who believe in the fiction of insurance, is that retired pensioners will receive in benefits "just what we paid in." This too is nonsense. The average beneficiary of the Social Security system has received five times what he paid in. The person who began to pay taxes when the original act became effective in 1937 and retired 20 years later at age 65 paid total taxes of $837. His employer paid the same amount—total, $1,674. The retired worker—let us assume he is married—got it all back in 10 months. If they are still alive today, at age 90, the couple collects every three months all that he paid in.

Put myths to one side and consider realities. When Social Security came into operation, life expectancy at birth was about 63 years. It's now 74 years. Typically the person who retires in 1982 at age 65 will live another 16 years. The longevity curve will keep going up. Other demographic realities: For the next 10 years, the system will be in deep trouble, as persons already in middle age reach retirement. Two decades will follow in which the system can coast along. Beginning about 2010, when the postwar baby boom explodes, the system will be in desperate trouble.

WHAT CAN be done? Much can be done. One of the few senators to talk sense about Social Security is Rudy Boschwitz of Minnesota. Bob Dole of Kansas is another. Jake Garn of Utah is a third. In the House, Jake Pickle of Texas has shown great political courage. They have suggested a score of changes that could be made without significant harm to present beneficiaries. The changes range from a three-month postponement in the annual July 1 cost-of-living adjustment to a phased-in plan for extending the retirement age gradually from 65 to 68. If Social Security benefits were taxed as other income for families with incomes above $25,000, the Treasury could pick up nearly $12 billion in the next three years. In simple equity, the retirees' cost-of-living adjustment should not exceed the annual increase in wages earned. A reasonable cap should be imposed on these COLAs.

Will any of this be done in 1982? These are the political realities: No. Congress may agree to one more quick fix, permitting the retirement fund to borrow from the Medicare and disability funds. That will be about the size of it. The system will then stumble along until the chasm of nonpayment lies ahead. Only then will Congress make hard decisions on curbing the growth in benefits or increasing taxes. Those decisions ought to be faced responsibly now—but don't hold your breath until they are. □

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Dr. Richard L. Lesher, President
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Subchapter S Comes Up for Revision

Legislation to ease and simplify rules governing Subchapter S corporations has been introduced in Congress with strong bipartisan support.

Sponsors say revenue losses to the Treasury would be negligible, and the bill has reasonable prospects for passage this year.

Subchapter S corporations are taxed as if they were partnerships: Profits and losses flow through to the tax returns of individual shareholders. The company does not pay corporate income tax. About 500,000 small businesses now operate as Subchapter S corporations. Most are new firms, highly profitable established firms or service companies that are not capital-intensive.

Under the pending legislation (H.R. 6055 and S. 2350):

- Subchapter S corporations could have a maximum of 35 shareholders instead of the present 25.
- The passive income test, which stipulates that no more than 20 percent of gross receipts of a Subchapter S corporation can come from passive investment income (such as rents, dividends and royalties), would be eliminated for companies without accumulated earnings and profits.
- The character of income, such as the tax-free return on government securities, would be passed on to shareholders.

Sen. Robert Dole (R-Kans.), chairman of the Senate Finance Committee, says that Subchapter S rules have been unnecessarily burdensome on taxpayers, and the legislation "would greatly expand the opportunity for the use of Subchapter S and remove many of the traps for the unwary that plague the present law."

Sen. Russell Long (D-La.) and other top members of the Senate and House tax-writing committees have joined Dole in sponsoring the bill.



PHOTO: JOHN WEISBAUER

Sens. Russell Long (left) and Robert Dole think Subchapter S should be less rigid.

Regflex Act Is Easing Business' Heavy Burden

Government compliance with the Regulatory Flexibility Act, a major small business victory of 1980, is "going pretty well," reports Charles Cadwell, director of interagency affairs at the Small Business Administration's Office of Advocacy.

Still, small business "needs to use the act more aggressively" by quickly getting in its comments on proposed rules.

For their part, agencies "must do more to get the word out on their activities than putting a notice in the *Federal Register*—they know whom their rules are affecting," the official says.

Cadwell says most agencies are evaluating the effect of new regulations on small business and tailoring them to small firms' ability to comply. The Labor Department and the Food and Drug Administration are doing a particularly good job, he says.

One of the Advocacy Office's main tasks is making sure Regflex works. Agencies are feeling the heat not only from Advocacy but also from the administration: The law allows 10 years for agencies to review all their rules with an eye toward eliminating those detrimental to small firms, but the President is asking that the whole job be done in five.

Agencies Learn To Pay Their Bills on Time

Kenton Pattie, the chief lobbyist for the Prompt Payment Act, passed in May, says he has no doubt the law will be effective.

Starting October 1, each federal agency is supposed to pay contractors within 30 days of receipt of an invoice. If 45 days elapse, the agency must pay interest on the bill, calculated from the 31st day. Interest (about 14 percent based on five-year Treasury notes) comes right out of the agency budget and is supposed to be added automatically to the late payment.

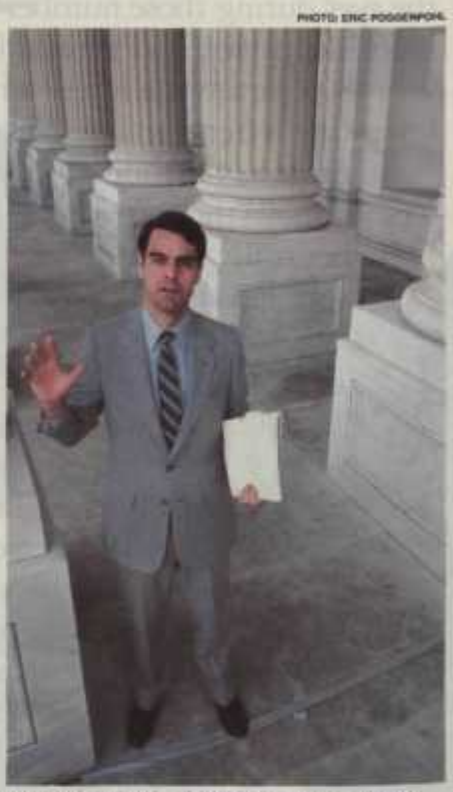


PHOTO: ERIC POGGENPOHL

Prompt Payment lobbyist Kenton Pattie: Agencies can't do business as usual.

About 30 percent of government bills are paid late. In effect, federal agencies have been borrowing interest-free from small business, says Pattie, who is senior vice president of the National Audio-Visual Association and spokesman for the Slow Pay Coalition of 41 trade associations.

Government has to rethink its bill-paying practices, he says. "Agencies must think about promptness and not just about protecting the government from abuses. It can't be business as usual."

Pattie adds that when the act faced critical stages, "hundreds of small business owners who had been zapped by late payments volunteered their horror stories. The stories made a big impression on Congress."

Several agencies, notably the Defense Department and the General Services Administration, have started improving their bill-paying procedures. Steven L. Hammer, GSA associate administrator for operations, says the agency already pays 96 percent of its bills by the due date.

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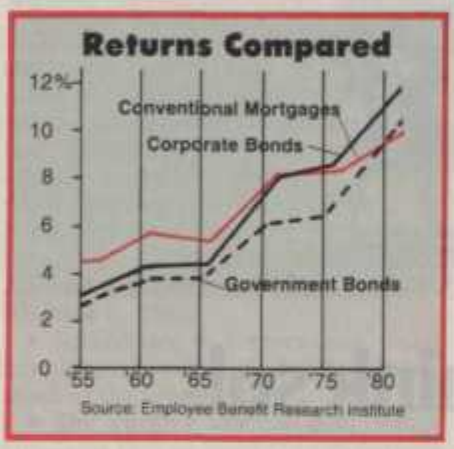
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ECONOMY

Will Pension Funds Revive Housing?

The wealth invested in private pension funds—estimated at more than $500 billion—would pay for a lot of new housing if it could be used to underwrite mortgages.

That theory will soon be tested. Last May, the Labor Department liberalized some requirements of the Employee Retirement Income Security Act to permit pension plans to acquire whole mortgage loans on new residential units if the loans meet standards set for purchase by the Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association.



Housing industry representatives say the changes in ERISA don't go far enough. However, extreme proposals that would compel pension plans to invest in housing are opposed by the administration, key legislators and even the AFL-CIO, which favors federal interest-rate subsidies.

How attractive will mortgage investments look to fund managers? "The return on housing investment has been far greater than the return experienced by the average pension fund investment," says Jack Carlson, chief economist and executive vice president of the National Association of Realtors.

A Brookings Institution study found that pension funds managed by insurance companies—invested largely in bonds and mortgages—have done better than those managed by banks, often invested in common stocks.

On the other hand, mortgage interest rates have recently been surpassed by those on long-term bonds (see graph).

If interest rates stabilize, experts say, mortgages will attract more pension money. Even so, there is no guarantee that a flow of pension fund cash into the housing market would represent a net gain, since the probable lowering of mortgage rates might cause present investors in housing to shift their funds elsewhere. Outlook? A small boost, perhaps, but no stampede.

Starting Life Over With Disinflation

Companies should prepare for the changes likely to accompany disinflation, advises Treasury Deputy Secretary R.T. McNamar. Among them:

- A company's ability to protect itself from inflation will be of less interest to investors.
- Equity financing will become more attractive, borrowing less so.
- Stock price-earnings ratios will go up, interest rates down.
- Price increases will be more difficult to pass on.
- Inventory will cease to be a source of reported profits.

McNamar warns of "a painful period of transition" when borrowing needs may remain high because of downward pressure on prices and recession-caused reductions in cash flow. Afterward, he says, balance sheets will look better because the shift to equity financing will improve debt-equity ratios.

DEFENSE

Aerospace Field Anticipates Growth

Major opportunities await firms that are capable of becoming subcontractors for the aerospace industry, says Arthur D. Little, Inc., the management consultant and research firm based in Cambridge, Mass.

But companies should act now on the current tide of rising defense expenditures, according to Robert C. Fraser, senior specialist in defense industries for the company.

"Those who wait could find it difficult to participate," he says.

Fraser says the expansion potential for suppliers is particularly good in electronic systems.

The Pentagon will spend $32 billion on aircraft in fiscal 1983, the defense expert notes, and about one third of that will go into electronic systems.

By 1986, Fraser adds, total aircraft expenditures will be up to $46 billion, with 40 percent going into electronics.

"Since aircraft are increasingly dependent on electronic technology, suppliers of electronic subsystems are in a position to profit," Fraser says.

He adds, however, that those suppliers "must first land contracts from the small group of prime contractors who provide aircraft design and assembly."



Demand for electronics engineers has climbed 12 percent since last year.

Competition for Engineers Is Heating Up

Defense contractors looking to hire engineers will have to offer more money and do more recruiting than in the past. Overall demand for engineers has climbed 8.1 percent above last year's hiring levels, according to a survey by Fox-Morris Personnel Consultants, Philadelphia, a professional recruiting and executive search firm. Salaries are up 12.4 percent.

Executives in the defense sector, machinery and capital equipment industry, and petrochemical and energy-related fields will face stiff competition from each other for top candidates.

Electronics engineers are in greatest demand. Next most wanted are controls-instrumentation specialists, followed by mechanical, petroleum, aerospace, energy, research and test, chemical, and industrial engineers.

"In every discipline, the most coveted engineers are those with two to five years' experience," says Fox-Morris President Sanford L. Fox. To get their proven talents, executives are offering an average salary of $28,780; the salary range reaches $40,000. Persuading engineers to relocate is expensive, too. Creative financing packages that include relocation allowances are sweetening job offers.

Demand for engineers is expected to remain high. Says Fox: "The current hiring pace does not reflect the tremendous pent-up demand in the marketplace, which is apt to be released as soon as the recession ends."

A message from one of the nation's leading authorities on industrial development . . .

INDUSTRY MUST HAVE DEPENDABLE ELECTRICITY

By Maurice Fulton

Chairman of the Board, The Fantus Company



The Fantus Company, a subsidiary of Dun & Bradstreet Corporation, is the oldest and largest firm specializing in facilities location, regional economic development and industry feasibility studies.

In the search for suitable industrial locations, the availability and reliability of electric power possibly is becoming the single most critical factor considered.

Other essential requisites — labor and transportation — can be attracted to a particular site if necessary. But power must exist — in sufficient, dependable supply — before we even begin evaluation of all the other characteristics of a community that may or may not make it an appropriate environment for industrial expansion or new development.

This is true not only for studies we undertake for clients with unusually large power requirements, but also for those who simply need moderate amounts of power on a steady, predictable basis. Increasingly, that is every manufacturer in America.

More and more, factories depend on computers, precision electronic tools and automated machinery. Interruptions or reductions in electricity supply are disruptive and expensive.

Adequate Supplies Critical

Therefore, we cannot risk siting a plant where power supplies are at all questionable. And we must be assured of adequate supplies well into the future.

A new plant or a major expansion represents a substantial long term investment. Our clients must be confident that necessary resources will be available for the life of the facility.

Utilities Need Capital

The ability of America's electric utilities to make the investments necessary today to assure adequate supplies tomorrow is critical to the industrial revitalization of the country. New generating facilities can require ten years or more to be brought on stream. In the meantime, existing facilities are becoming out of date and increasingly expensive to operate.

But utilities cannot invest in new generation, transmission and distribution facilities — or even adequately maintain existing facilities — if they cannot attract investment capital. To do that, they must be permitted to earn sufficient amounts to assure their financial health and provide returns competitive with other potential investments. In many cases, shortsighted regulatory policies are sapping the financial strength of utilities so that they are having difficulty raising capital at reasonable cost.

Consequently, programs for new capacity, conversion to cheaper, dependable fuel supplies and replacement of obsolete facilities have been postponed or abandoned.

The inevitable result will be less reliable service, probably at higher-than-necessary rates, which industry cannot tolerate for long.

DOE Warns of Power Shortfall

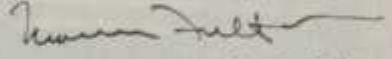
A report issued recently by the U.S. Department of Energy warns:

"... continued utility financial problems, against a background of modest demand growth, may cause a long-term shortfall in electricity supply. If powerplants continue to be cancelled and deferred as they have been recently, supply sufficiency could be at risk in much of the country as early as 1990."

From the point of view of industrial development, the electricity supply problem may be closer at hand than the next decade.

With alarming frequency, utilities are telling us that they cannot economically handle the increased demand a major industrial development represents today, much less provide assurance of adequate supplies into the 21st century.

The eventual cost to the communities served by these utilities — in lost employment, erosion of tax base, stagnant economic activity — will far outweigh the cost of restoring America's electricity system to financial health.



Maurice Fulton

This is one of a series of messages sponsored by the Edison Electric Institute, representing the investor-owned utilities that deliver 77% of the nation's electricity.

Participating independent authorities are not paid for these messages, but present them because they believe the issue is of critical national significance. EEI welcomes your comments.

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ENERGY

Utilities Can Help Business Cut Costs

Electric utilities offer a variety of programs designed to help businesses cut energy costs, the Edison Electric Institute points out. Most companies offer the services without charge, and they are available through a telephone call to a firm's local utility, the institute adds.

EEI is an association of investor-owned electric companies. Its comments on cost savings respond to an item in NATION'S BUSINESS in which a private consultant on utility services held that utility rates were negotiable for business customers that knew how to negotiate them.

"Utility rates are established by state and federal regulatory commissions and are not negotiable, but within each rate category (commercial, industrial, residential), various types of rates and service are offered to meet the needs of specific businesses," EEI reports. "Qualified utility customer-service representatives are available to advise on the most economic approved rate schedule and service arrangements."

And the savings work both ways, EEI adds: "Utilities are anxious to avoid expensive new construction, and their customer representatives are trained to tailor available types of service to specific business situations, taking into account both the customer's needs and the cheapest way for the utility to meet them." The end result is not only lower costs for the customer but economies for the utility, EEI says.

Cost-saving programs offered by the industry include the work of the Electrification Council, which provides building managers and engineers with extensive training in the efficient use of energy. Information on the council is available from local utilities or from the Electrification Council, (202) 828-7518.

PHOTO: PEPCO



This utility company technician will draft an energy-saving plan for a customer.

Appliance Efficiency Standards Opposed

The Department of Energy is not merely resisting Congress' 1978 instructions to impose federal standards on 13 major home appliances. It wants to pull the plug on federal standards and wipe out those that states already have in place.

The public has until October 29 to respond to DOE's "no standard" plan.

Rep. Richard L. Ottinger (D-N.Y.) has introduced a bill that would allow states to keep or rewrite their standards. Fifty cosponsors support the Ottinger bill, expected to reach the full House in a month or two.

They argue that without mandatory standards, manufacturers of home appliances would have no incentive to improve the efficiency of their products. However, most companies say the incentives are in the marketplace.

Implementation of mandatory standards would likely add to the cost of new appliances, but manufacturers are unsure how much.

REGULATION

Clean Air Revisions Face Challenge

Business groups pressing for action this year on revisions to the Clean Air Act remain optimistic about prospects for success.

They believe that their proposals to amend and simplify the act have strong public support and that Congress will respond.

Basically, business says the act can be modified to remove unreasonable restraints on economic growth, while preserving clean air goals. Various public opinion polls show support for that position. It is also a position taken by the Reagan administration.

Environmentalist organizations counter that the economic growth argument is a subterfuge for rolling back basic protections of the law at a time of high unemployment and recession.

While rejecting that contention, business strategists say there is a perceptual problem: Mindful of the November elections, members of Congress uncommitted on the measure fear they will be tagged as enemies of clean air if they vote for the industry approach.

The challenge for business lobbyists is to convince those wavering members that supporting amendments to ease implementation of the act and rid it of its burdensome costs would be viewed by constituents as a positive contribution to the national interest because of the increased economic growth that could result.

OSHA Search Warrants Attacked in Lawsuit

The Supreme Court has been asked to prohibit the issuance of "wall-to-wall" search warrants to inspectors for the Occupational Safety and Health Administration.

Brought by the Mountain States Legal Foundation, the suit argues that such warrants violate constitutional guarantees against unreasonable search.



The foundation is acting on behalf of Hern Iron Works, a small foundry in Coeur d'Alene, Idaho.

OSHA inspectors obtained a search warrant when two Hern employes complained about their working conditions. In seeking the warrant, the inspectors asked for access to all plant facilities and to the company's books and records.

The Hern suit argues that warrants should be limited to specific areas cited in allegations of unsafe conditions.

Attorneys for the legal foundation, a public-interest law firm active in eight Western states, view the case as a follow-up to *Marshall v. Barlow's*, which established that OSHA inspectors could not enter business premises without search warrants.

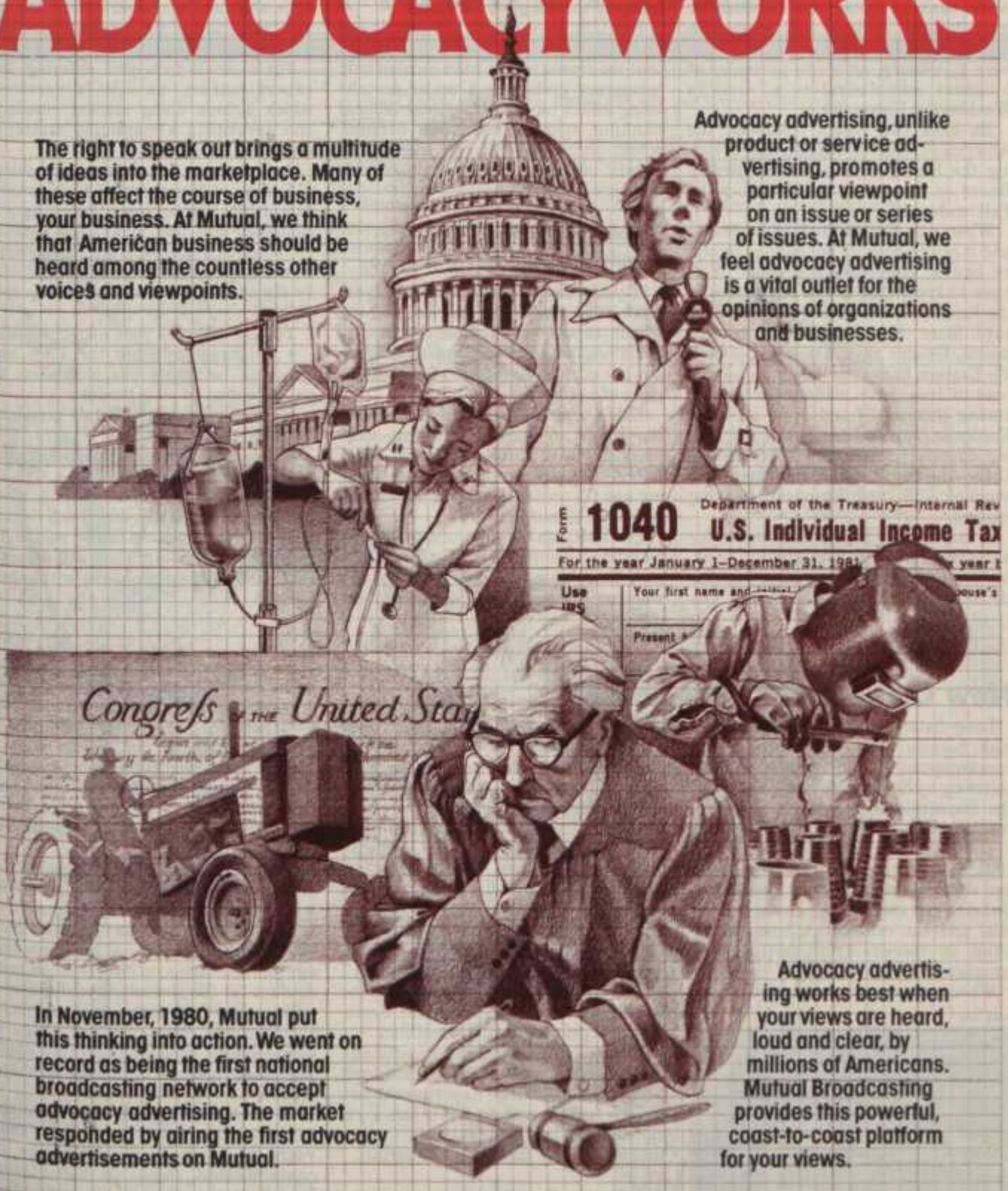
Roger J. Marzulla, president and chief legal officer of the foundation, says the new litigation is designed to strike the proper balance between the interests of employers and the interests of employes.

He says, "It is outrageous that OSHA has been allowed to tilt that balance to the point where the average small businessman has fewer rights against unreasonable search and seizure than a murderer or a dope peddler."

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INTERNATIONAL

Frozen Assets Endanger Bank System

Government interference in the world banking system could destabilize international banking and jeopardize free market transactions, warns Fariborz K. Ghadar, associate professor of business administration at George Washington University.

He cites two recent instances: the American freeze on Iranian assets during the hostage crisis and the British freeze on Argentine assets during the Falklands conflict.

When one bank's position is frozen and it can't honor its obligations to other banks, uncertainty grows. "You have to know that if you put money in the bank, you can take it out," Ghadar says. Since the U.S. freeze on Iranian assets, Ghadar says, a number of Middle Eastern banks, including some new ones in Iran, have made plans to lend among themselves and avoid U.S. and European banks. Other banks are lending directly to banks or individuals in Latin America and the Far East, also avoiding U.S. and European banking centers.

A major shift in the mechanism for allocating funds could complicate banking for companies engaged in international trade. Working outside the system by making direct loans could increase the danger of default.

But U.S. government officials do not see any immediate danger. They say that the frozen assets have created only temporary problems. A major destabilizing effect on the entire international banking system, says one official, would occur only "if the freezing of assets became a routine diplomatic measure."

Helping Hand For Would-Be Exporters

If you'd like to break into the export market but aren't sure how to go about it, an export management company could help you make foreign sales without the cost of an export staff—or the risks of not having one.

EMCs are companies that contract the rights to market American-made products in a foreign country. Most EMCs do their own promotion and selling and fill orders by purchasing directly from a manufacturer.

The EMC makes its profit by buying from the manufacturer at a discount—sometimes as much as 40 percent—and marking up the price to its foreign distributor or customer. However, the EMC eliminates credit risk, handles international banking transactions, manages shipment and distribution abroad and takes care of the export-related paper work at both ends.

For a small firm just entering the export market, an EMC's services, which include doing market research and developing a marketing strategy, are often a bargain.

A Commerce Department directory, *U.S. Export Management Companies,* lists 1,100 EMCs; seven years ago it contained half that many. The directory, which is available from the Government Printing Office for $7, lists EMCs by state and gives their marketing specialties.

You'll need to do your own checking:

- Determine whether the EMC has adequate resources and inclination to pay attention to your product.
- Get a copy of the firm's standard contract; terms vary.
- Ask some current clients what kind of job the EMC does for them.

The next step will be selling your company to the EMC, which will decide whether your products can be sold in its markets and whether they will present conflict-of-interest problems with other clients.

AGRICULTURE

New Cattle Call: "All Aboard"

Long-distance rail shipment of cattle may become more practical if cattle cars equipped with onboard feeding and watering systems, now being tested by the Department of Agriculture, prove cost-effective.

The Livestock Transportation Act of 1906, by requiring that livestock be fed and watered every 28 hours, made long-distance rail shipment of cattle impractical and has caused cattlemen to depend on increasingly costly truck transport.

When cattle are moved from breeding to feeding areas in the West, they lose 7 to 10 percent of their weight. Ranchers hope the new cattle cars' more natural and less crowded conditions will cut weight loss.

PHOTO: USDA



A cattle car with feeding facilities could cut dependence on truck transport.

The test car is 91 feet long and capable of transporting 200 head of feeder cattle weighing 400 pounds each. Its onboard feeding and watering system will support livestock for five days. The car was lent to the government by the Ortner Freight Car Company, Milford, Ohio. "This is the type of cooperation I like to see between government and the private sector," says Assistant Secretary of Agriculture C.W. McMillan.

Because cattle transport is seasonal, idle cars could prevent the method from being cost-effective. Experiments are already under way to work out a removable feeding and watering system that would free cars for other cargo.

Advice on Combating Two Fungus Diseases

Growers of corn and alfalfa whose crops are threatened by two relatively new diseases can take action to prevent damage.

Corn anthracnose, a fungus infection, has become a threat to corn production in the southern portion of the Corn Belt and last year invaded crops in New York State. Verticillium wilt, a fungus that affects alfalfa, was detected in Washington State in 1976 and has since moved east. It weakens plants so that in two or three years yields become unprofitable.

According to Gary C. Bergstrom, a plant pathologist at Cornell University who works with the Agriculture Department's extension service, the otherwise beneficial practice of minimum tillage and the decline in crop rotation help account for the spread of the diseases.

To combat corn anthracnose, farmers should rotate crops, use full tillage if corn must be replanted and buy resistant seed instead of susceptible hybrids.

To eradicate verticillium wilt, rotate to corn or small grain for three or four years. Clean equipment after use in contaminated fields to help avoid spreading the disease. Contaminated crops can safely be used for silage because the fungus tends not to survive. Buy seed treated with a fungicide.

Caution: Anyone who eats alfalfa sprouts should not buy seeds in the hardware or feed store, where seeds may have been treated. □

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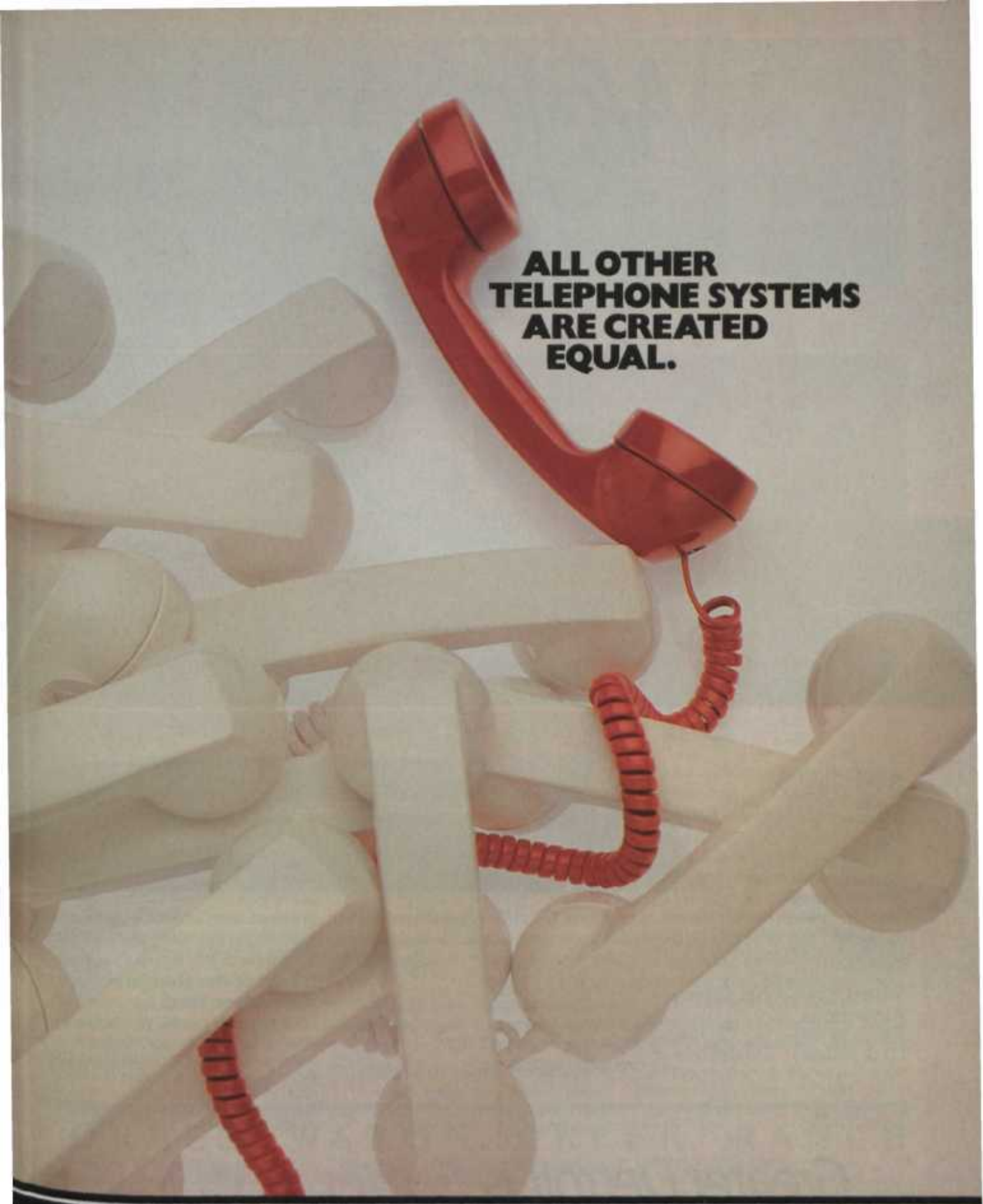


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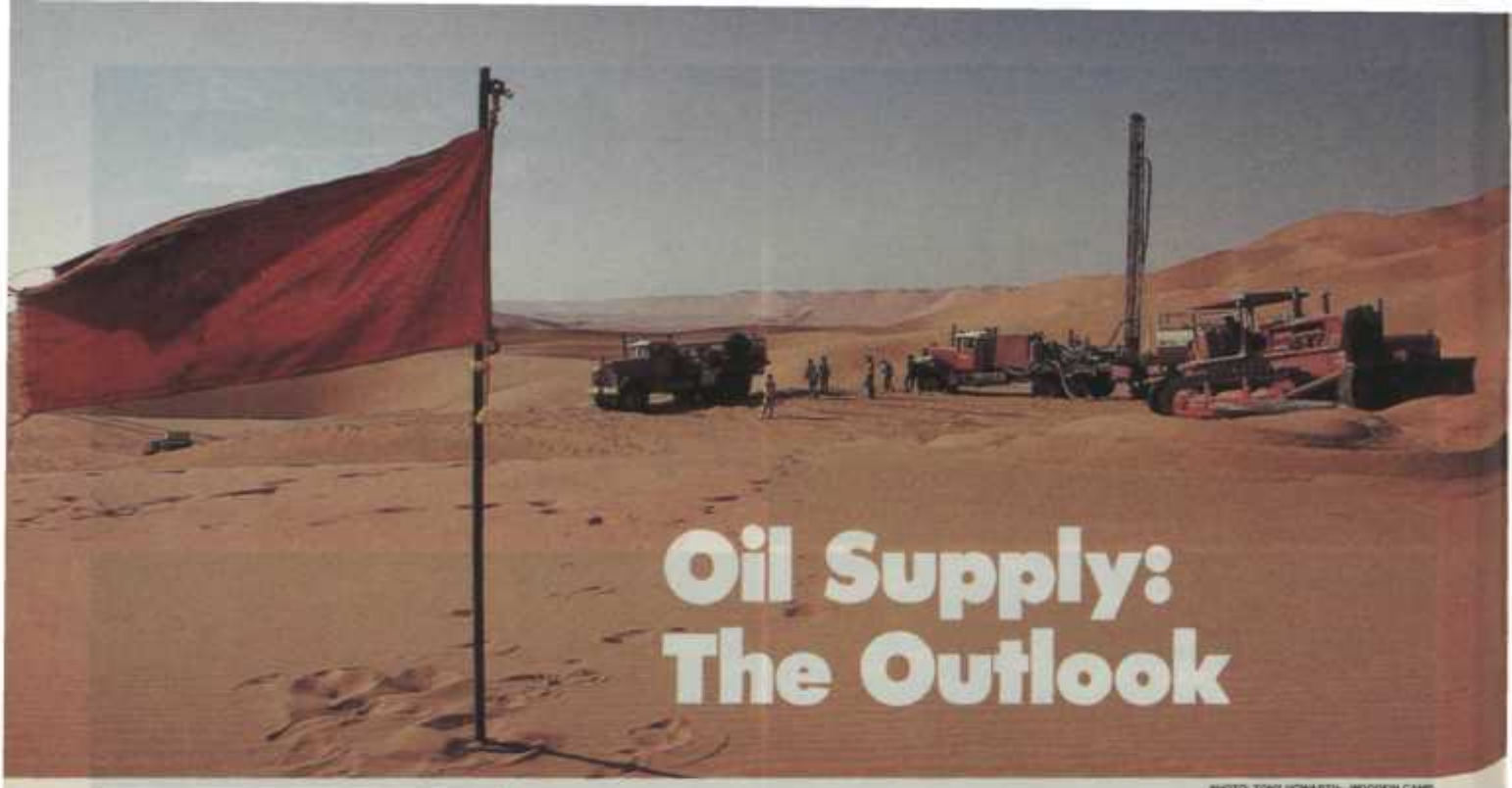
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Oil Supply: The Outlook

PHOTO: TONY HOWARTH—WOODFIN CAMP



PHOTO: HONEYWELL

Will petroleum imports rise? How about prices? Here's a look at what to expect after the glut.

By Tony Velocci

THE WORLD was awash in petroleum. In the United States, gasoline prices tumbled, and there were even price wars in some areas.

Cartoonists gleefully portrayed Middle East sheiks inundated by crude oil they couldn't sell and getting their comeuppance after a decade of exploiting a sellers' market.

The Organization of Petroleum Exporting Countries, it was said, might well be fading in the international oil picture.

Amidst the American euphoria, there were some voices warning that the glut was transient and that the United States would soon be back in the real world of international oil supply.

In that world, OPEC still has a strong hand on the valve controlling a significant portion of the industrial nations' lifeblood—crude oil—and most of OPEC's output comes from one of the most unstable areas on the globe.

And the United States is once again confronting those realities.

In mid-March, OPEC set production quotas that reduced daily output of its members from 18.2 million to 17.5 million barrels. Markets firmed, and prices started back up.

Middle East tensions, never far below the surface, once again burst into all-out warfare with the Israeli invasion of Lebanon.

Though there was no immediate impact on oil supplies, there was widespread concern that the fighting could eventually involve Middle East countries that would use the oil weapon to bring world pressure on Israel, as they did in 1973. OPEC actions of that period have had a profound effect on the price and supply of crude oil.

What is the oil outlook for the United States now?

Imports are going back up—fairly sharply, according to some estimates.

J. Erich Evered, chief of the Energy Department's Energy Information Administration, reported to Congress last month that crude oil imports would reach 4.3 million barrels a day late this year, an increase of 1.5 million barrels—nearly 35 percent—over the average earlier in the year.

Whether that surge, which stems from increased demand without a corresponding rise in U.S. production, continues depends largely on how rapidly the nation recovers from the recession.

Experts disagree on the pace of the upturn. Some say that the direct relationship between economic growth and energy demand ended about two years ago because of energy conservation by industry and the public.

BUT Herbert Krupp, senior energy economist of Bankers Trust Company, believes energy demand could expand considerably. "Energy-intensive industries, such as rubber, primary metals and forest products, are down so low that their comeback potential is substantial," he says. "As their recoveries gather momentum, there could be a corresponding jump in energy consumption."

One factor that could increase energy demand is business inventories, which were cut sharply because of burdensome carrying costs.

At U.S. Steel Corporation, Chairman and Chief Executive Officer David Roderick says: "Production may outpace actual demand because we will have to strengthen our inventory position. This could lead to a temporary surge in energy requirements." The steel industry is responsible for about 1 percent of the nation's energy consumption.

Primary causes of the rise in demand

Energy conservation, symbolized by the fuel-saving thermostat at left, is helping America reduce its dependence on imports from the oil-rich Middle East.

so far are a seasonal increase in gasoline consumption and efforts to replenish oil inventories, which are now only a fraction of what they were last summer—basically because oil companies gambled that crude prices would continue dropping.

Hardly anyone believes that the brief respite from rising prices caused any serious slippage in conservation. Last year U.S. consumption of crude and petroleum products averaged nearly 3 million barrels a day less than in 1978.

Authoritative sources say only a fourth of the energy saving in the past 18 months is due to the recession; the rest, they say, is the result of conservation. That comes as no surprise to John F. Bookout, Jr., president and chief executive officer of Shell Oil Company. "Fireside chats didn't get the message of conservation across," he says. "Higher prices did."

The price of Saudi Arabian crude is now $34 a barrel, compared with $12.70 in 1977 when President Carter, clad in cardigan and sitting beside a fireplace, called the energy crisis the "moral equivalent of war" and created the Energy Department. A year later demand was nearing record proportions.

Crude oil prices, at least in the short term, are expected to be stable, though gasoline prices, which had been under particular pressure during the glut, may increase by a dime a gallon. Data Resources, Inc., economists predict that the inflation-adjusted price of crude oil will actually drop 14.3 percent during 1982 and 2.1 percent in 1983. DRI expects 1984 real costs to rise no more than one half of 1 percent.

BUSINESSES that will benefit most include airlines, about a third of whose operating costs are for fuel, and chemical firms, which use an estimated 1 million barrels of oil a day.

For eight years, before the price of oil started to decline last year, ballooning energy prices added more than 2 percent annually to the inflation rate and slowed the domestic economy's growth by at least 1 percent annually, according to economists at Chase Econometrics.

What will happen to domestic production? The petroleum industry has sharply reduced the rate of increase of its spending on exploration. Outlays this year will rise 14 percent—to $95.3 billion—over 1981 levels. That compares with a 39 percent increase last year. An even smaller increase is likely in 1983.

Explains Lawrence Funkhouser, vice president for exploration and production at Standard Oil Company of California: "When oil prices were moving up, more properties became economical to produce. Now the marginal properties are moving the other way."

All across the country, the number of working drilling rigs has dropped sharply, and major projects to develop new sources of energy, both conventional and unconventional, are being slowed or closed down altogether.

The consequences of those trends won't become apparent for years, but they will be felt. Depending on the demand for petroleum in the second half of this decade, the United States could see a sharper jump in the level of imports then.

Currently, the United States produces 8.7 million barrels of oil a day, up from 8.2 million in 1977. That production is the result of exploration and development programs that were begun years ago.

In 1980, the first full year of phased decontrol of crude oil prices, and in 1981 there was an enormous surge in drilling. "We'll see the fruits of that activity around 1984 or so," says Michael E. Canes, vice president of finance analysis and statistics at the American Petroleum Institute. The potential for additional domestic oil production is

PHOTO: ROBERT AZZI—WOODFIN CAMP





PHOTO: JAMES A. SUGAR—WOODFIN CAMP

If tankers could not bring oil from the Persian Gulf, the U.S. could get along by temporarily tapping the strategic reserve.

As oil prices rise out of their slump, the number of working drilling rigs in the U.S. should increase.

substantial. The U.S. Geological Survey figures there could be another 90 billion barrels of conventional oil (as opposed to, say, oil from shale or tar sands) on land and offshore.

"The United States is not facing a precipitous decline in potential discovery areas," says James B. Ramsey, chairman of New York University's Department of Economics. "Its offshore regions are 98 percent untouched, and Alaska has merely been probed."

MUCH OF THAT oil may never be economically recoverable. Generally, though, the higher the world market price, the more economical it becomes to recover oil from hard-to-reach places.

That exploration is highly expensive, however, and the industry is concerned about the many congressional proposals to impose new taxes. Such taxes, the industry says, would drain off funds needed to finance new exploration and drilling.

Proponents of such measures argue that they would be a further incentive for people to conserve energy. Critics see them as blatant attempts to raise money from business, particularly the petroleum industry, to help reduce the federal deficit.

A result of the drop in oil prices has been a sharp reduction in petroleum companies' profits—30 percent in the first quarter of 1982. Return on investment was down 35 percent.

For the government, that means far less income from the "windfall-profits" tax, the excise levied on almost all domestic oil production since 1979.

Most forecasters do not expect domestic production of crude oil to increase significantly by 1990. But just maintaining the current increased level of production will go a long way toward providing a buffer against a major cutoff of imports. Dependence on imports has dropped from 48 percent of total supply in 1977 to 30 percent, and a return to past high percentages is not expected.

Another important buffer against shortages is the Strategic Petroleum Reserve. Its 261 million barrels of oil would meet the nation's current oil import requirements for 56 days. At the present fill rate the reserve's target of 750 million barrels will be reached in the late 1980s.

The reserve, domestic production and conservation all mean that the United States is in the best shape since the 1973-74 oil embargo to blunt the impact of a sizable cutoff. But the experts also say that a major upheaval—such as the shutdown of Saudi Arabia's oil fields, which now produce nearly 50 percent of OPEC's total output, or a blockage of the Straits of Hormuz, through which much of the world's oil supply passes—could still result in hardships in this country.

Though both of those scenarios represent extremes, they are possibilities nonetheless and underscore America's continued energy dependence on a politically volatile region. The United States still imports about 4.6 million barrels of oil and petroleum products a day, and some 40 percent of that comes from the Middle East.

"Even with the progress we have made in the past few years," says American Petroleum Institute President Charles DiBona, "one can say that the energy crisis is over only by making some highly unrealistic assumptions." Among them:

- No Middle East dispute will disrupt the world's oil flow during this decade.
- The current pattern of marked swings in oil prices and production will be broken.
- OPEC and other producing nations will not again manipulate oil output to benefit their own internal development.

The industry consensus is that U.S. energy policy cannot be based on such assumptions and that domestic output must increase with demand. OPEC's ability to control production is still very real, despite the recent glut, experts say, and the United States remains vulnerable.

J. Hunter Chiles, director of the Energy Department's Office of Policy, Planning and Analysis, says, "The influence of OPEC is diminishing over time, but make no mistake: They still have a firm hand." □

Shortage or Snafu?

A lesson to be learned from oil cutoffs, say many experts, is that government intervention simply doesn't help.

In 1980, when the United States lost imports of about 500,000 barrels of crude oil a day from Iran, the government allocated supplies.

Says Milton R. Copulos, director of energy studies at the Heritage Foundation: "We succeeded in turning a nominal 5 percent reduction of overall supplies into spot shortages of up to 25 percent at the pump."

In the 1973-74 Arab oil embargo, the country lost 14 percent of its total crude oil supply. In an effort to "share" the shortage, the federal government promulgated regulations that effectively prohibited refiners from processing more than a certain amount of crude oil, even when it was available.

Chances that the government will get back into the business of juggling petroleum stocks are slim.

Last March the Senate failed to override a presidential veto of a bill that would have allowed President Reagan to allocate oil supplies and set prices in an emergency. Reagan said the free market system is best equipped to handle any shortfall.



Planning for an energy shortage requires creative thinking.

PHOTO: ROBERT AZZI—WOODFIN CAMP

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Rebound-Bound

As the economy edges toward recovery, Congress is on the spot. Its actions will be a key to the recovery's length and strength.

SIGNS of an economic recovery are increasing at midyear. But does Congress have the ability and will to establish the fiscal-policy environment necessary for a sustained recovery to take hold?

That is the basic question facing the nation at this critical time, which sees the economy capable of a rebound but threatened by what has been near-chaos in Congress over fiscal policy.

Those two situations are indivisible because of the nature of the emerging recovery. Economists generally agree that consumer spending will lead the upturn, and the behavior of interest rates will determine its strength.

Thus the growing number of signs of consumer-oriented recovery must be weighed against congressional inaction, which has a major impact on interest rates.

From the consumer standpoint, the potential for recovery is good. Consider these factors:

- The individual income tax cut and the Social Security cost-of-living increase effective this month will add $45 billion a year to disposable income.
- The inventory sell-off that kept factory output down has reached the point where an upswing in consumer buying will be translated almost immediately into increased production.
- With inflation down to an annual rate of 3 percent for this fiscal year, compared with 12 percent the previous year, individual purchasing power has increased substantially.
- Employment increased 777,000 in May. The number of jobless went up 242,000, but total employment stood at more than 100 million for the first time since last November.
- Domestic auto sales rose in May to a seasonally adjusted annual rate of 6.2 million units, up 15 percent from the previous month.



Ending inflation remains the first priority of Federal Reserve Chairman Paul A. Volcker.

- The expectation of increased consumer spending is affecting the production chain: Orders for machine tools, used in the manufacture of most durable goods, went up 12 percent in April.

Nevertheless, problems remain. A recent Commerce Department survey shows that businesses plan to invest 2.4 percent less this year than last in new plant and equipment.

Much of the difficulty centers on the interest rate level. Though there have been some signs of improvement, economists generally believe that a substantial drop is necessary for a sustained recovery, especially in the auto and housing industries. They also believe that such a drop will not occur until Congress shows that it can implement fiscal policies that will contribute to economic stability.

Specifically, lenders are still looking for official assurances that double-digit inflation will not return and that Congress will protect the economy from the forces that produced those rates—runaway spending and taxation.

How well Congress will succeed is uncertain. The recent floundering in the House of Representatives over the budget offered little encouragement.

Even congressional adoption of a budget resolution for the fiscal year beginning October 1, which has been the focus of the recent debate, would not end the uncertainty.

How Congress implements its resolution—in terms of spending and tax increases—will not be resolved for several months.

The money supply is also a factor in the economic outlook. Recent growth can be interpreted as good or bad. From November through April, the growth of M1 (currency and checking accounts) was above 9 percent at an annual rate. If lenders and investors see this as merely a Federal Reserve attempt to offset the abnormally low growth rates of the preceding six months, the effect will be lower interest rates. But if it is interpreted as an indication that the Fed is reflating the economy to accommodate swelling federal deficits—something Fed Chairman Paul A. Volcker swears he does not want—interest rates may rise.

How do all those factors combine into an overall outlook? Prominent among the optimists is Murray L. Weidenbaum, chairman of the Council of Economic Advisers. "My view of the

second half hasn't changed very much," he says. "I expect a growing economy."

The CEA's midyear economic review is complicated by the difficulty of foreseeing what fiscal policy will eventually emerge from Congress. The review should be released at midmonth. (The annual report, issued last February, forecast real GNP growth of 3 percent for this year and 5.1 percent for 1983.)

Also optimistic is the U.S. Chamber of Commerce Forecast Center. Chamber econometricians believe the economy turned around in the second quarter. They predict third- and fourth-quarter growth rates of 5.6 and 4.4 percent, respectively (change from previous quarter, at seasonally adjusted annual rate).

Other forecasts are somewhat less optimistic, though still positive. Averaged responses to a National Association of Business Economists survey of 400 of its members indicate real GNP growth of 2.4 and 2.9 percent in the year's last two quarters.

"It is expected to be a relatively weak recovery," says M. Kathryn Eickhoff, a past president of NABE.

THE MESSAGE to policymakers, says Eickhoff, is that "the expenditure side of the federal budget needs to be brought under control." Sixty-three percent of respondents say fiscal policy is too easy, and 66 percent expect it to remain so in the next two fiscal years. In contrast, 69 percent say monetary policy is "about right."

NABE members generally oppose major tax increases and favor keeping the investment tax credit intact.

But the protracted and inconclusive budget debate in Congress has caused some forecasters to revise their estimates downward. One is Morris Cohen, of Morris Cohen & Associates, Hackensack, N.J. "I held out for a long time on the hope that the politicians in Washington were going to make it," he says, "but I have now decided they are not."

His prediction that GNP would grow at an annual rate of 6 percent in the second half of 1982 has been lowered to 4.5 percent.

The major private forecasters generally agree, however, that the outlook appears brightest for the service, food products, communications and financial sectors (except savings and loans). The extractive industries and basic manufacturing are not expected to do very well. In general, sectors that are sensitive to interest rates have suffered most in the recession and will be the last to emerge from it.

PHOTO: PAUL PETTERS



Cut federal spending, urges M. Kathryn Eickhoff of the National Association of Business Economists.

PHOTO: TOM EBENHOH—BLACK STAR



Lower interest rates will release a flood of pent-up demand for autos and new housing. Since mortgage rates can be expected to drop more slowly, autos are likely to recover first.

PHOTO: ANDREW SACKS—BLACK STAR



Autos and housing are among the biggest question marks. Some analysts are encouraged by improved auto sales in early spring, but others discount the uptick as the product of promotional discounts in prices and loan rates. Most agree that a large pent-up demand for autos will be unleashed when consumers grow more confident and interest rates drop.

Demand for housing is also potentially large, but mortgage rates are expected to be among the last to fall. Housing starts rose slowly from a low of 854,000 units last October (at a seasonally adjusted annual rate) to 947,000 for March, dipped to 881,000 in April and then went back up in May to 1.09 million.

Michael Sumichrast, chief economist of the National Association of Homebuilders, advises against making too much of such ups and downs.

"The level of starts for the last nine months is so depressed that the figures don't make much difference," he says. Sumichrast expects starts to range between 1.2 million and 1.3 million units next year.

Industry economists were pleased by the 22 percent spurt in housing starts for May but want to see the figures for June and July before proclaiming that the upturn represents a trend.

In short, the outlook is for a moderate recovery sparked by increases in consumer disposable income. Where it goes from there depends on the future course of interest rates—the biggest puzzle in economics today. □

Deflating the Deficit Figures

AN INCREASE in taxes, especially at the margin, "will more likely result in lower living standards, higher inflation and higher interest rates," says Robert Genetski, vice president and chief economist of Harris Bank, Chicago.

But David Shulman, a consulting economist to the Business Forecasting Project at the University of California at Los Angeles, maintains that "tax increases are absolutely essential" to a chain reaction in which increased revenues lower the federal deficit, decreasing competition for credit and lowering interest rates.

Those are the two key arguments in the debate on what steps should be taken to cut the federal deficit. That controversy assumes deficit levels ranging upward from $100 billion.

But what if everybody is wrong about the size of the deficit? This arresting possibility is explored by two economists at the Federal Reserve Bank of Philadelphia, writing in the bank's *Business Review*.

Brian Horrigan and Aris Protopapadakis make three points. First, "so far as the credit markets are concerned, what matters is how much the government sector borrows from the public." Therefore, all government borrowing—federal, state and local—must be lumped together.

Second, since government agencies borrow from one another, increases in debt holdings by government agencies must be subtracted from increases in total government debt. The Social Security Administration, for example, invests its surpluses in Treasury certificates, as do many state and local governments.

Third, "increases in government debt that keep the real value of the debt constant don't add to government's claims on the financial resources available for private investment." Therefore, the impact on credit markets should be measured by "government net borrowing," which is "the change in the real value of the government debt, expressed in current dollars."

In other words, increases in the nominal size of the government debt caused by inflation are balanced by increases in the nominal value of the money in the private sector. Thus, while the deficit appears to grow larger, its size has not necessarily changed relative to the private sector.

BY GOING through those three steps in accounting, the economists figure that the federal deficit for calendar 1982—estimated by the administration at $97 billion—represents only $46 billion in federal net borrowing. That's high by historical standards but still well under the $56 billion in federal net borrowing for 1975.

Horrigan and Protopapadakis conclude: "The net borrowing figures show that government has not been a significant drain on the credit markets. As long as inflation persists, government can run substantial budget deficits without crowding out private investment. But as inflation and inflationary expectations fall, budget deficits will fall without any expenditure cuts or tax increases."

Their analysis also includes a warning: "If the government were to try to hold down its net borrowing by reducing its expenditures and raising taxes during a recession, it would destabilize the economy unnecessarily, and a deeper recession could result." □

More Taxes, More Debt

Large tax increases will actually produce a bigger federal deficit, according to two projections made by the U.S. Chamber of Commerce Forecast Center.

The first assumes no tax increases and continuation of all tax relief provided by the Economic Recovery Tax Act of 1981. Federal spending is cut (below present growth trends) by $43 billion in fiscal 1983 and $64 billion in 1984.

The second scenario assumes repeal of the 10 percent 1983 personal tax cut and additional tax increases of $31 billion in fiscal 1983 and $51 billion in 1984. Spending is cut by $47 billion and $92 billion.

	Simulated Scenario			
	No Tax Increases		Large Tax Increases	
Key Economic Indicators (calendar years)	**1983**	**1984**	**1983**	**1984**
Real gross national product (percent change from previous year, adjusted for inflation)	+6.2	+6.3	+2.1	+1.8
Inventory change (billions of dollars)	31.0	52.0	12.0	14.0
New car sales (millions of units)	11.1	12.5	9.4	9.2
Housing starts (millions of units)	1.8	2.1	1.4	1.8
Unemployment rate (percent)	7.3	6.0	9.0	9.1
Consumer prices (percent change from previous year)	4.5	4.4	5.2	5.2
Prime interest rate (percent)	10.0	8.0	13.0	10.0
After-tax profits (billions of dollars, adjusted for inflation)	167.0	218.0	126.0	145.0
Federal Budget (fiscal years)	**1983**	**1984**	**1983**	**1984**
Outlays (billions of dollars)	769	802	786	825
Receipts (billions of dollars)	657	728	660	692
Deficit (billions of dollars)	-112	-74	-126	-133

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THE HELLER/ROPER SMALL BUSINESS BAROMETER

How CEOs See Things Now

PESSIMISM ISN'T PASSÉ, BUT THERE ARE REASONS FOR MORE OPTIMISM



ILLUSTRATIONS: JACK LEFKOWITZ

This is a report on the latest Heller/Roper Small Business Barometer, a survey of chief executive officers at more than 1,000 firms that have between 40 and 500 employes.

The survey, designed primarily to show hopes and concerns for the second four months of 1982, was conducted in May by the Roper Organization under sponsorship of the Walter E. Heller International Corporation's Small Business Institute.

Such surveys have been conducted at four-month intervals since January, 1980.

THERE ARE some signs that chief executive officers of small businesses see the recession bottoming out, although their expectations on sales and profits are the dimmest in two years.

One sign: The latest Heller/Roper Small Business Barometer indicates anticipated borrowing levels have remained constant since the start of 1982.

Also, concern over excessive inventories has abated. And the length of time small firms must wait to collect receivables has declined.

But the strength of entrepreneurial resilience is reflected in the attitudes of small business founders when asked whether they would consider starting a new business under today's economic conditions. A little more than half say they would. Another third would contemplate starting a business of their own if the recession were over.

Sales

Asked what they expect their sales revenues to be from May through August compared with the same four-month period last year, 38 percent of small business CEOs predict increases, and 32 percent foresee declines. (Twenty-eight percent say sales will be the same, and the rest say they don't know.)

This is sharply more pessimistic than the mood in May, 1981, when 53 percent expected higher sales, and only 19 percent lower sales. However, it represents a relatively modest drop in expectations compared with last January, when 41 percent looked forward to higher sales, and 24 percent lower sales.

The East has replaced the South as the most optimistic region. Forty-three percent of Eastern CEOs anticipate higher sales, compared with 38 percent in the Midwest and 36 percent in both the South and the West.

Manufacturers are the most pessimistic—only 33 percent look forward to higher sales, compared with 38 percent of wholesalers, 42 percent of retailers and 44 percent of CEOs of service and other companies.

Hopes for increased sales are greatest among firms with 300 to 500 employes (53 percent) and decline appreciably with the size of firm: 39 percent of those with 100 to 299 employes and 37 percent of those with 40 to 99 employes.

Expectations on unit sales have softened. Thirty percent of CEOs say they expect unit sales in the middle third of 1982 to be higher than in the same period last year; 34 percent anticipate lower unit sales. A year earlier 41 percent

looked forward to increases, and 22 percent expected decreases. Last September the respective figures were 38 percent and 25 percent. Last January they were 32 percent and 26 percent.

Profits

Thirty-eight percent of CEOs forecast that their profits will be lower in the four months starting in May than they were in the same period last year; 28 percent say they will be higher.

Those findings contrast with replies to the May, 1981, survey, when 30 percent anticipated lower profits, and 35 percent higher profits. The latest reading also is somewhat more pessimistic than last January's polling, when 34 percent predicted profit decreases, and 30 percent increases.

As with sales, optimism is greatest in the East, where 33 percent expect higher profits. This compares with 28 percent in the South, 27 percent in the Midwest and 26 percent in the West.

The proportion expecting lower profits is largest among manufacturers—43 percent, compared with 40 percent of wholesalers, 34 percent of retailers and 33 percent of CEOs at service and other companies.

As for profits as a percentage of sales, 36 percent of small business CEOs expect them to be lower in the middle third of 1982 than in the same period last year, and 26 percent anticipate them to be higher. The proportion forecasting lower profits has gone up 2 percentage points since last January and 5 percentage points since May, 1981.

Twenty-eight percent of CEOs in the Midwest expect higher profits as a percentage of sales, 26 percent in the West and 25 percent in both the South and the East.

Consistent with earlier surveys, in which retailers have tended to be most optimistic and wholesalers least optimistic about profits as a percentage of sales, increases are predicted by 30 percent of retailers, 26 percent of CEOs at service and other companies, 25 percent of manufacturers and 21 percent of wholesalers.

Borrowing

Thirty percent of CEOs say their firms' borrowing levels in the middle third of 1982 will be lower than in the same period last year; 20 percent say borrowing will be higher. The proportion planning to increase borrowing is unchanged from January but down 3 percentage points from May, 1981.

Anticipation of increased borrowing

Sales in Dollars

The percentage of CEOs expecting sales revenue rises has dropped in three straight surveys.

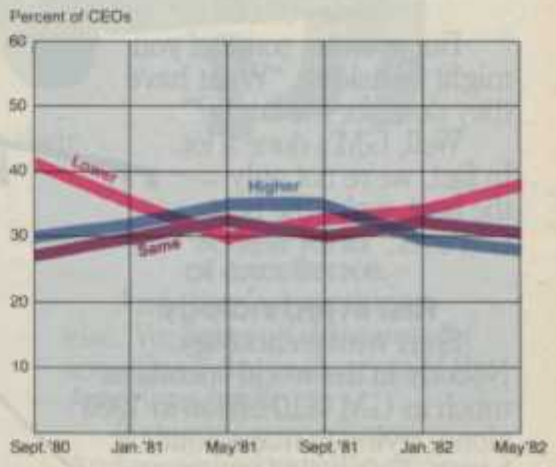




Profits

How will profits stack up against those in this period of 1981? Pessimists outnumber optimists.

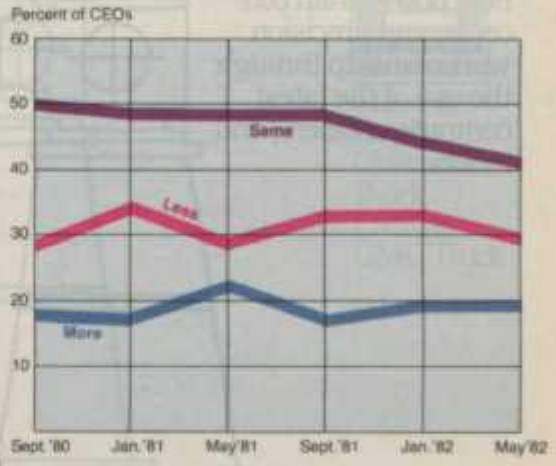




Borrowing

Small business borrowing plans provide a hint that better times are on the way.





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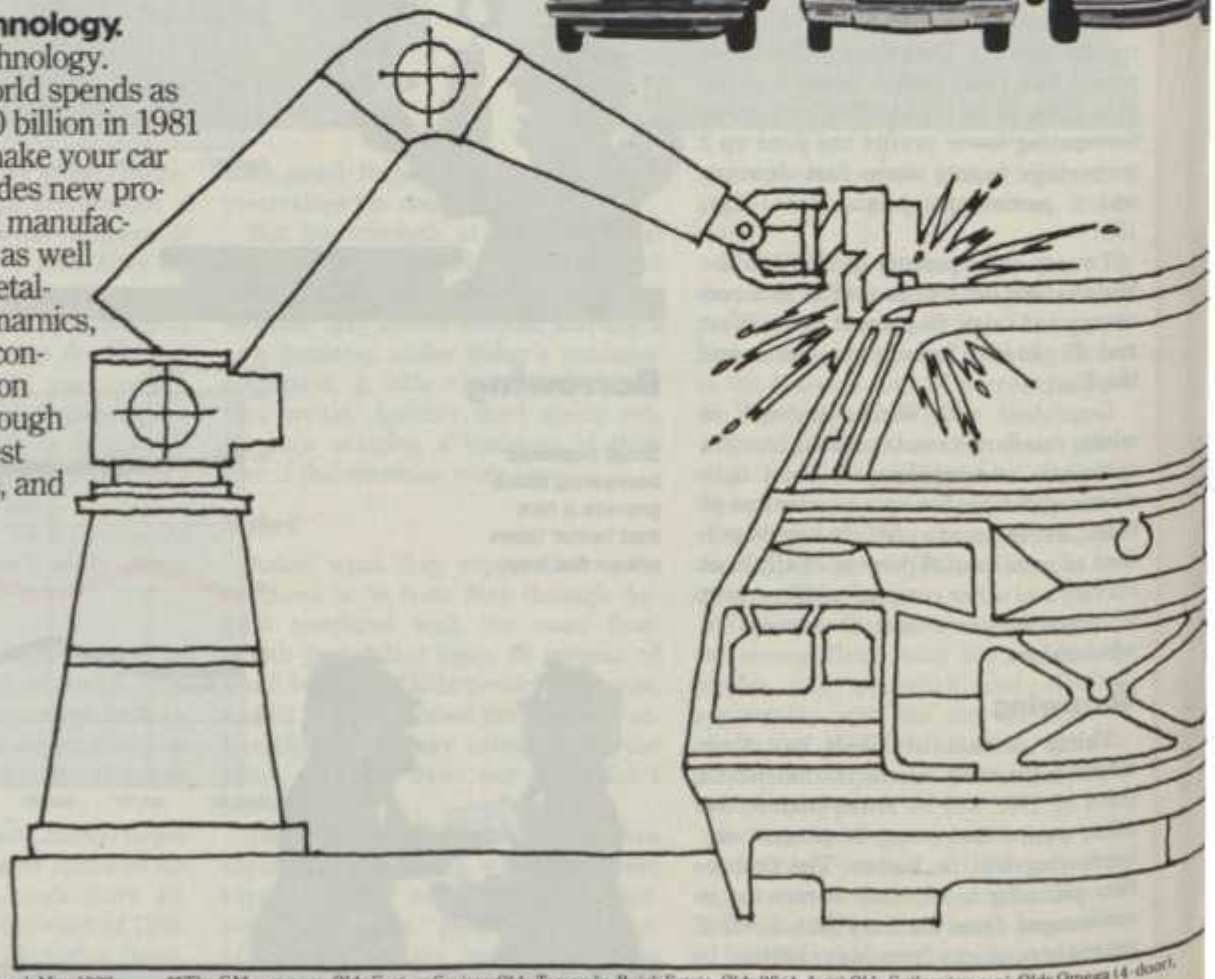
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*Calendar year through May 1982. **The GM cars were: Olds Custom Cruiser, Olds Toronado, Buick Estate, Olds 98 (4-door), Olds Cutlass (wagon), Olds Omega (4-door).

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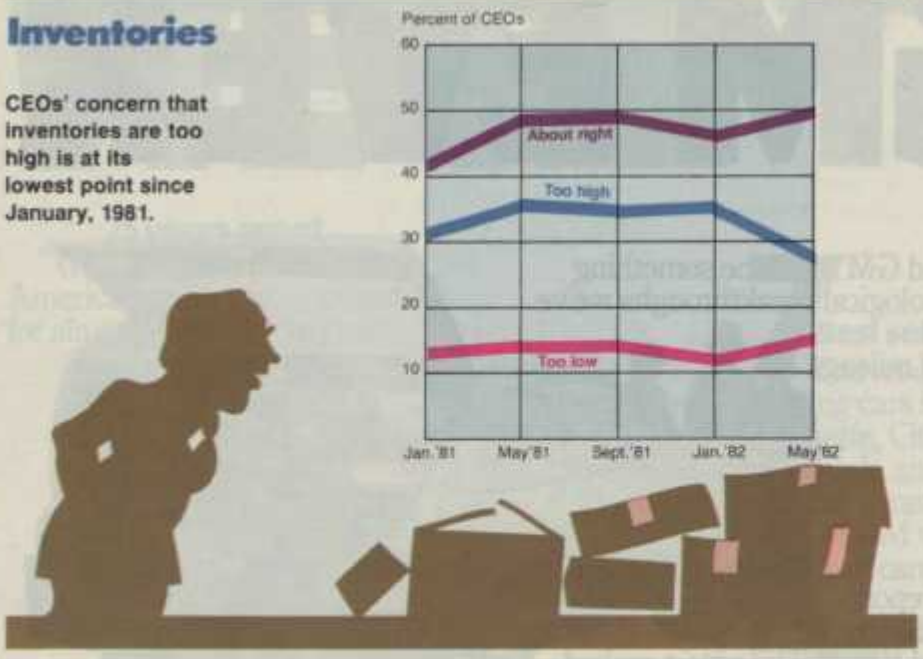


Richard Michael Caras
Engineer

Chevrolet Caprice (wagon), Pontiac Bonneville (wagon), Olds Delta 88 (4-door), Pontiac Catalina (4-door), and Buick LeSabre (4-door). Source: Highway Loss Data Institute.

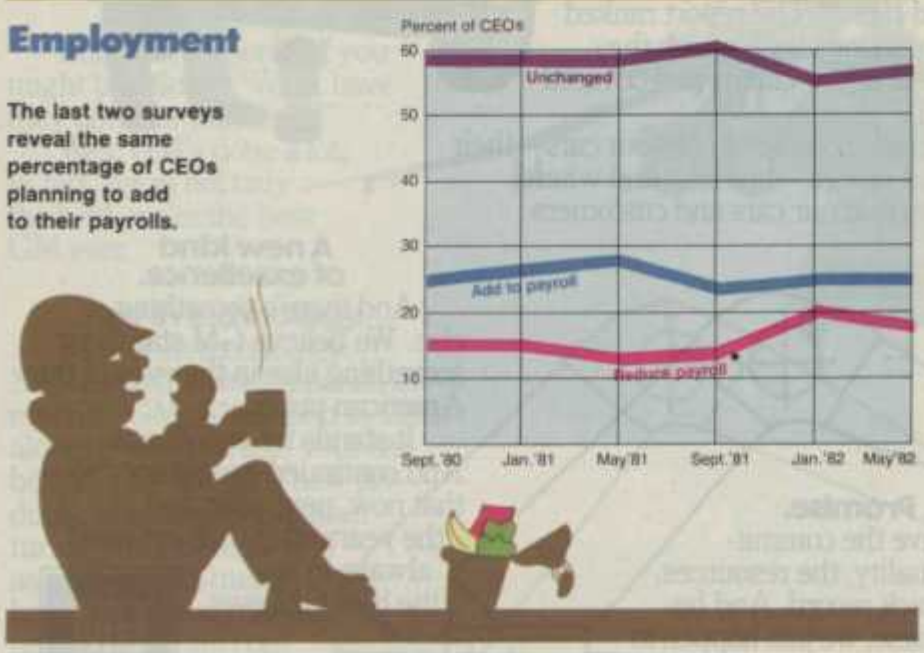
Inventories

CEOs' concern that inventories are too high is at its lowest point since January, 1981.



Employment

The last two surveys reveal the same percentage of CEOs planning to add to their payrolls.



is slightly higher in the East (24 percent) than in other regions: 21 percent in the West, 19 percent in the South and 18 percent in the Midwest. Wholesalers are more likely (27 percent) to raise their debt level than are manufacturers (22 percent), service and other companies (20 percent) or retailers (17 percent).

Inventories

Concern about the level of inventories is at the lowest point since January, 1981. In the latest survey 28 percent say that inventories are too high and 16 percent that they are too low. The comparable figures last January were 36 percent and 12 percent. In January, 1981, they were 31 percent and 13 percent.

As in the past, more wholesalers (41 percent this time) say inventories are excessive than manufacturers (27 percent) or retailers (25 percent).

Receivables

Small businesses are not having to wait as long for money due them. Responses to the latest survey show the median waiting period for collecting receivables to be 38.6 days. The figure in the survey last January was 39.3, the same as it was in the May, 1981, survey. It was 38.4 last September and 36.9 in January, 1981.

Employment

Fifty-seven percent of the CEOs say they plan to maintain their payrolls at existing levels in the four-month period; 25 percent plan to increase payrolls, and 17 percent to reduce them. Last January the comparable figures were 55 percent, 25 percent and 20 percent. In May, 1981, the figures were 58 percent, 28 percent and 13 percent.

In each survey since the September, 1980, Heller/Roper Small Business Barometer, the proportion of CEOs planning increased payrolls has been higher than the proportion planning decreases. But also, in each survey, a majority of CEOs have said they expected payrolls to hold at existing levels.

Entrepreneurship

Has the recession inhibited entrepreneurship? CEOs who had founded their companies were asked whether they would start a business today, given current business conditions and incentives and assuming they had their original drive. CEOs who had not founded their companies were asked a similar question.

Fifty-three percent of founding CEOs say they would start a company under current conditions; 43 percent say they would not (4 percent cannot decide). Among the other CEOs, those who would not outnumber those who would start their own business 49 to 46 percent (with 6 percent undecided).

Most of the pessimism about starting a business can be traced directly to the recession. CEOs who would not take the plunge at this time were asked what they would do if the recession were over. In both categories, two thirds state they would start a business of their own.

	Company Founders	Not Company Founders
Would start own business under today's conditions and incentives	53%	46%
Would not start own business under today's conditions:		
But would start own business in same line if recession were over	27	28
But would start own business in other line if recession were over	6	9
Would not start own business even if recession were over	10	12
Don't know	4	6

Crusade For Young Americans



The Rev. Dr. Leon Sullivan, chairman of a nationwide job training organization, hopes one in 10 American businesses can be persuaded to employ a jobless young person.

WITH MORE THAN 10.5 million Americans out of work and an estimated 9.3 million nonfarm businesses in this country, unemployment could be practically wiped out if each business hired one person.

Persuading 9.3 million executives to take on another employe each would be a task for Hercules, but the Rev. Dr. Leon H. Sullivan has chosen a labor that's only slightly less difficult: finding jobs for 1 million of the nation's 4 million jobless young people he estimates are on street corners.

Sullivan is founder and chairman of Opportunities Industrialization Centers of America, a job training organization headquartered in Philadelphia. If some 10 percent of U.S. business firms hired just one youth each this year, he says, an explosive situation would be defused.

His Young Americans Job Crusade—known as Hire-One—already has the support of the U.S. Chamber of Commerce and many business leaders around the nation.

Early last month in Chicago, the tall, 59-year-old pastor of the 6,000-member Zion Baptist Church in Philadelphia told the annual convocation of OIC: "These past three months I have been into the streets and the ghettos of our cities.... I have not seen a crisis of such magnitude developing since before the great riots of the 1960s. I have seen more frustration in the cities ... more unemployed youth on the street corners than at any time in the last 20 years.

"So I am sounding an alarm to the nation.... Social dynamite is being manufactured daily, and if we don't get these young people to work and busy, it is going to explode.

"I am making an appeal to America to get jobs for at least a million unemployed youths before the end of this year—full-time and summer jobs."

Leon Sullivan is no new face on the job scene. He founded OIC in 1964 with one training center in Philadelphia—in an abandoned jail. Rent was $1 annually, and there was no budget.

Today the organization and its 128 affiliates in 40 states have a staff of nearly 3,000 and a budget of $100 million. The centers have a total of 60,000 trainees in class daily. As of the start of this year, 600,000 had been trained and approximately 76 percent had jobs.

Since OIC's inception, graduates have paid over $2 billion in federal income taxes, $350 million of that in 1981.

OIC has received funds from state and local governments and the Departments of Labor, Commerce and Education. Major corporations donated $1.1 million in 1981. Foundations and individuals also contribute.

According to Maurice Dawkins, OIC's director of corporate communications and government relations, more than 90 percent of the funding comes from government sources. But some centers have 25 percent private funding.

"I believe in reprivatization," says Sullivan. His goal is to operate entirely with private funds.

EARLIER THIS YEAR the OIC founder, concluding that Congress and state and local governments would not move before summer "to stem the tide of hopelessness, drug abuse and juvenile crime," turned to the business community for a solution.

He began by meeting with civic and business leaders and going into the streets to talk with youths in eight cities: Columbia, S.C.; Charleston, W.Va.; Menlo Park and San Diego, Calif.; Detroit; Chicago; Seattle; and Washington. He got a favorable response to his crusade, which jelled when a businessman came up to him and said, "Look, everybody can hire one."

Hire-One gained momentum when William Aramony, president of United Way of America, threw his support to the concept and urged each United Way chapter to hire one youth.

In mid-May Sullivan met with Richard L. Lesher, president of the U.S. Chamber of Commerce. He found an ally. Lesher is encouraging members of the U.S. Chamber across the nation to focus on the problem and to support the Hire-One program.

Sullivan recently gained the support of Mayors Byrne of Chicago, Young of Detroit, Green of Philadelphia, Young of Atlanta and Barry of Washington, and Govs. Rockefeller of West Virginia and Riley of South Carolina. Rep. Jack Kemp (R-N.Y.), former quarterback for the Buffalo Bills, has presented Sullivan with a $25,000 check from the National Football League Charities to help the program along.

Now Sullivan is turning to the White House. Not only does he want presidential support for Hire-One, he is asking President Reagan to declare a national youth emergency and create a task force to work out a comprehensive youth job policy.

In the meantime Sullivan will continue his efforts with the President's Task Force on Private Sector Initiatives, of which he is a key member. An outspoken advocate of the free enterprise system, he believes that voluntary action and the private sector can provide the best long-range solutions to the problem of jobs for minorities. □

Starting On A Shoestring

Edward Shorma almost went broke twice. But now he has been named Small Business Person of the Year.

By Michael Thoryn

WHEN Edward F. Shorma found himself seated next to the Vice President at a luncheon in Washington, he told George Bush that if the federal government was to succeed in its job, "it should run its affairs like a business because you can't spend yourself wealthy."

Shorma knows all about succeeding: He runs his business affairs so well that he has been named the 1982 Small Business Person of the Year.



The Shur-Lok roll-up tarp, patented in 1980, is Edward Shorma's best-seller. One person standing on the ground can secure the cover for a 45-foot trailer.

His Wahpeton, N.D., company, which makes canvas and vinyl truck-covers, high-strength conveyor belts, seats for farm equipment and wood trim used in construction, wasn't always a thriving concern. Shorma, 49, started on the proverbial shoestring with a one-man shoe repair shop in 1953 and nearly went under twice. But today, Wahpeton Canvas Company grosses $8 million a year and employs 220. The 3-acre plant is a major employer in Wahpeton, a southeast North Dakota town of 9,500 that serves the farmers of the rich Red River Valley.

At a White House ceremony in May during Small Business Week, President Reagan paid tribute to Shorma and the winners of small business awards from 49 other states, Puerto Rico and the District of Columbia:

"You are people who are expanding the economy," the President said. "Just to survive the past few years has been a struggle."

Earlier, at a state awards luncheon in North Dakota, Gov. Allen Olsen praised Shorma's "self-contained, self-sufficient" approach to business success.

For his part, Shorma says, "I knew I could succeed by applying myself. I had a lot of ambition and the desire to take care of my family." He and his wife, Patricia, have eight children—six boys and two girls.

Shorma, born to Czechoslovakian immigrants, grew up on a farm outside the tiny town of Wyndmere, N.D. He quit high school in the 11th grade to join the Air Force. The Korean War was on. "The recruiters had big 'See the World' signs," Shorma recalls. He wound up in an intelligence unit doing behind-the-lines reconnaissance. Returning to North Dakota after the war, he took a series of odd jobs—driving a rural mail route, checking government grain bins, hauling gravel, repairing shoes and selling cars.

In late 1953, a shoe repair business became available in Wahpeton when its owner left town. The price was $3,500. "It could have been $3.50; I didn't have the money," Shorma says. After some bargaining, his offer of $1,500, raised by mortgaging his car, was accepted. A $50 loan from an employe of the shop covered cash register change and the first month's rent.

The first year's gross at Wahpeton Shoe Hospital, $5,600, was enough for Shorma to retire all debts, pay for the birth of his first child and cover his living expenses.

Expansion began in 1956. Shorma started to manufacture and repair


WAHPETON
CANVAS CO.
INC.

tarps for farm trucks, seed boxes and fertilizer attachments. First Bank Wahpeton lent $3,000 for sewing machines and inventory; the loan was repaid in less than a year.

The fledgling business was located in the basement of a downtown clothing store. Shorma and his small work crew carried untold thousands of pounds of raw materials and finished goods up and down the stairs. The entrepreneur paid a high price for the heavy lifting: A back problem required fusion surgery in 1963 and laid him up for nine months.

As he recovered, Shorma began branching out. He bought farmland, and by 1967 he was growing crops and raising hogs and cattle on 1,500 acres as well as managing the business, which he renamed Wahpeton Canvas Company.

Giving in to the urgings of friends, he also won a seat in the North Dakota House of Representatives in 1964. The 70-day legislative session and district responsibilities took a big chunk of time from farm and company management. "Being a legislator is natural for lawyers," Shorma says. "For me, well, it wasn't my background." But the experience taught him that "bargaining for position in politics is very much like bargaining in business."

A collapse of the market for cattle feed caused tremendous losses in 1969-70. Shorma was forced to sell his farming operation. "I was broke, but my banker had respect for me as a working fool," he says. "He guaranteed 80 percent of a $70,000 Small Business Administration loan even though the bank could have been stuck with it."

With its owner's full attention, Wahpeton Canvas Company stabilized. Shorma won contracts for replacement seats for tractors, canvas belting and wooden slats.

In 1973, MacDon Industries, a Canadian farm equipment firm, asked WCCO for a quote on original-equipment canvas belting. But because of a cotton shortage, Shorma couldn't find canvas. Having used vinyl in truck tarps, he suggested a substitution.

After seeing a handmade sample, MacDon wanted 4,500—a $250,000 order. Shorma scrambled. He bought heat-sealing equipment from a bankrupt snowmobile manufacturer and adapted it. He improvised a technique to rivet slats to vinyl.

IT WAS a confident businessman who drove the first truckload to Winnipeg—and a devastated man who drove that same truckload back home. Length and width did not meet specifications, and parts were missing. The whole works was rejected.

However, Shorma's first lesson in quality control was not a total loss to his firm: WCCO was given time to redo the job because "they needed the product as badly as we needed the business," Shorma says.

From that close call, the company took off. By the end of 1973, the 40-person work force was pressing the limits of the downtown building, bought in 1969. Shorma relocated north of town in a larger facility with plenty of land for growth. The space was needed quickly. The next year a warehouse, loading dock, truck port and steel fabricating shop were added.

New products came on-line: original-equipment seats, campstools and cots made with wood scraps. A contract with K-Mart led to the wood department's major product—high-grade veneer wrapped around low-grade wood for indoor and outdoor house trim.

The plant was designed with energy conservation in mind. Burning wood dust and circulating waste heat from the rubber presses heats more than half the plant.

Inventiveness didn't stop there. Shur-Lok, a roll-up truck tarp, was patented in 1980. One person on the ground can close and secure a cover for a 45-foot trailer. About 8,000 units have been sold. Other companies like WCCO's idea—Shorma is pursuing patent infringement cases against three rivals.

Shorma says his small firm has some advantages over bigger competitors. "I'm able to adjust more rapidly," he says. "A decision doesn't have to go through a chain of command."

In the early years, however, Shorma had no chain at all. He was president, deliveryman and salesman, often taking off his loading dock overalls to make sales calls.

Another advantage: WCCO can maintain high morale by avoiding layoffs.

Winners All

Edward Shorma was chosen Small Business Person of the Year from nominees of each state, the District of Columbia and Puerto Rico. The nominees were winnowed from about 2,000 entries considered by state panels—each chosen from many possible entries.

Principal criterion is a firm's growth in the past five years, measured by sales increases and job creation. Other criteria: the executive's community service, leadership and advocacy for small business. The head of the U.S. Small Business Administration—currently James C. Sanders—weighs the state panel suggestions and selects the top award and two runners-up.

The 1982 first runner-up is Atilano Cordero-Badillo of Catano, Puerto Rico. He opened a grocery store 12 years ago with $3,000 in cash and a $2,000 loan; today sales of A. Cordero-Badillo, Inc. exceed $50 million a year and he has more than 400 employes.

When Richard E. Mystrom of Anchorage, Alaska, the second runner-up, moved to Alaska in 1972, he was unemployed. Three years later he joined a three-person advertising agency and then bought out his partners. Under Mystrom's leadership, the firm, Mystrom Advertising, has grown to 21 employes. Revenues, about $2.5 million in 1981, have been increasing 33 percent a year. The firm has won many awards for creativity in print and electronic media campaigns. Mystrom has served as an Anchorage assemblyman, and he founded Big Brothers of Anchorage.



PHOTO: ROBERT BURGESS

President Reagan honored Shorma and his wife (far right) in Washington.

Workers are shifted among the four departments—metal, fabrics, wood and rubber—when one has a downturn.

About 40 handicapped workers are employed by WCCO in sheltered workshops. Shorma also employs Vietnamese, Cambodian, Iranian and Kurdish refugees and a part-time crew of college students from the State School of Science in Wahpeton. Shorma estimates that 250 young people have helped finance their education by working at WCCO.

PRODUCTIVITY is improved by employing an unexpected specialist for a small firm—a full-time pilot, who clocks more than 1,000 hours a year. Company sales reps travel quickly to distant towns or to Minneapolis–St. Paul (four hours by car but only one hour by two-engine prop) for connections to major cities.

The firm has two warehouses: The one in Council Bluffs, Iowa, stores truck parts, and the Dillon, Colo., warehouse, run by Shorma's 22-year-old son, Robert, stores wood moldings. The WCCO president is eyeing additional warehouses.

More export sales are another goal. Canadian sales already total about $2 million. WCCO products have also been sold to firms in Australia and Japan, and Shorma recently bid on a job for Saudi Arabia. "Small businesses shouldn't shy away from exporting. Once you have one or two foreign jobs, it gets easier," he says.

The president of WCCO likes to set goals. One of the grandest: $25 million in sales.

Shorma leads his workers by example. Says his controller, Esa Khatib, a native of Jordan, "I've not met a man who enjoys his work more or who puts so many hours into it."

A typical workday runs from 7 a.m. to 7 p.m., and sometimes Shorma returns for another hour or two at night. Staff meetings for 15 managers are scheduled for 6:30 a.m. at a nearby coffee shop. "They all unload what's on their minds," Shorma says.

Shorma tries not to agonize over big decisions. He seeks advice from Khatib, plant superintendent Duaine Miranowski, and his three oldest sons: Richard, 28, director of purchasing; William, 27, manager of the truck-cover department; and Thomas, 25, director of marketing. Shorma then makes the decision.

The company is too big now for the president to be involved in small problems, so he counts on dedication to the work ethic to help things run smoothly. "You have to take time to explain what you want. Then employes can assume more responsibility."

In this regard, Shorma considers North Dakota a good place to do business—hard workers are easy to find, he says.

Shorma believes business people must be more active politically. "You can't just sit there and point fingers. You have to make your needs known through trade groups and by letters and phone calls." Among Shorma's activities: He's a member of the Wahpeton Chamber of Commerce and a vice president of the state chamber, the Greater North Dakota Association. He is also on the board of directors of the Community Development Corporation of Wahpeton.

Shorma would like to see government programs achieve practical business goals: help with feasibility studies, for example ("there have been many times I could have used that"), or expanded job training for handicapped and retarded workers. The beneficiary of a North Dakota business assistance program, Shorma has been able to defer real estate taxes on three major plant expansions.

LONG WORKDAYS don't leave much time for hobbies or leisure, but Shorma says, "I like my work; it's my hobby." To keep in touch with distant customers, he has a toll-free home phone number.

Exercise consists mainly of walking or biking the two miles to the office. He and his wife have flown on many weekends to college football, basketball and hockey games to keep up with their children's athletic careers.

Another getaway is the Shormas' lake cottage 50 miles from Wahpeton, where children and grandchildren (four girls, one boy) gather in the summer. "Without the family unit, all this work would be unimportant," Shorma maintains.

The shiny engraved plaque he received in Washington hasn't gone to his head. By the time Sen. Quentin N. Burdick (D-N.D.) made a congratulatory phone call a few days later, Ed Shorma was well into another workweek. "I have to face reality and do the things I have to do," he told the senator. "I get tremendous satisfaction charting my own course, pursuing opportunities instead of security." □

To order reprints of this article, see page 65.

28

YEARS OF EMPLOYEE BENEFITS COMPARED

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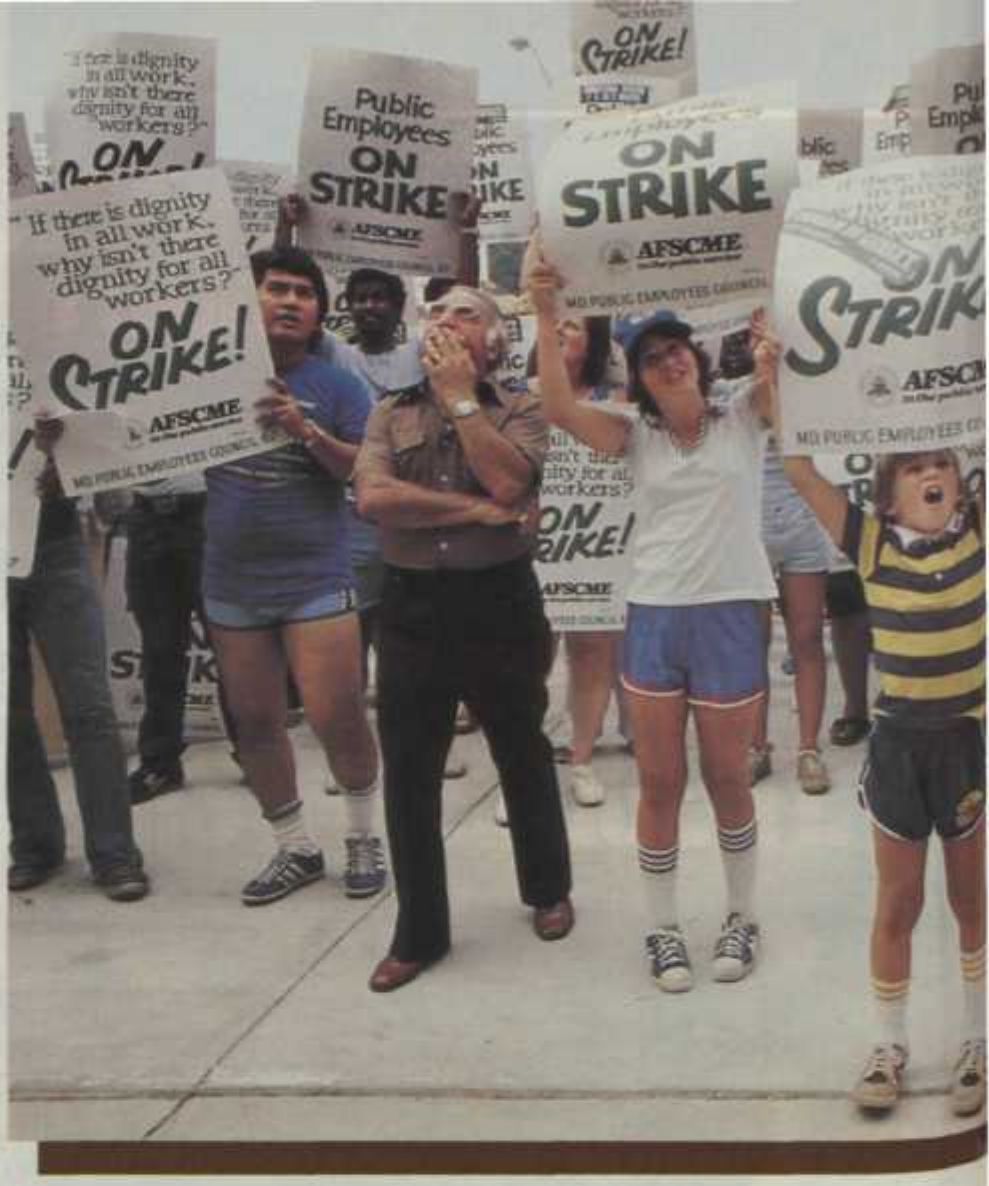
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The Sorry State Of The Unions

Organized labor today is not what it once was. But what will it be tomorrow?

By Del Marth

AN ILL WIND is blowing through the ranks of organized labor these days. The rate of membership growth is declining. Representation elections are being lost in greater numbers. Unions are more reluctant to accept the risks of a strike. Workers who once battled to win more benefits sometimes find themselves giving them back.

Some critics say the labor movement is terminally sick. Union leaders give a different diagnosis; they say the movement is going through a transition, albeit a difficult one.

That the labor unions are ailing there is no doubt. Symptoms are everywhere.

For example, although membership in unions increased from 21.2 million in 1970 to 22.3 million in 1980, the percentage of the country's labor force that carries a union card declined. In 1970 that percentage was 24.7; in 1980 it was 20.9.

Under another column, that of employes in strictly nonagricultural occupations, the numbers look worse—30 percent of such workers were unionized in 1970, but in 1980 the percentage had sunk to 24.7.

Experts believe the figures for 1981 and today, were they available, would be even more dismal for organized labor. But the compiling of such data by the Bureau of Labor Statistics succumbed to Reagan administration budget cutbacks.

A glance at union representation elections in recent years also shows negative results for organized labor. In 1965 labor won 60.2 percent of elections held to organize a nonunion shop; in 1980 the victory percentage slumped to 45.4. The 1981 rate, still being compiled by the National Labor Relations Board, is expected to drop further.

Even strike activity is taking a dive. To most analysts, this above all is a telltale of labor's waning strength. The amount of working time lost to strikes in the United States has been unusually low for six consecutive years. In 1974 stoppages numbered 6,074 and resulted in almost 48 million idle man-days; in 1980 stoppages were fewer than 5,000, and idle man-days numbered about 33 million. Totals for 1981 may be even lower.

Lane Kirkland, president of the 15-million-member AFL-CIO, is disturbed but not daunted by organized labor's troubles.

"The fact that many of our unions are negotiating in a difficult climate, faced with large-scale layoffs and giving a growing priority to job security, is not novel," he says.

John T. Dunlop, Secretary of Labor under President Ford and now a professor at Harvard, says unions will not only survive but will again prosper.

"Union membership remains high," Dunlop points out. "Historically, the membership grows and ebbs, depending on the times. Over the last 100 years, for example, labor union membership grew in about 20 years and held steady or declined the other 80."

Dunlop finds little significance in the unprecedented return of benefits in the past year. Givebacks have occurred largely in the auto industry. The last major United Auto Workers strike took place in 1976, against Ford Motor Company. That year the UAW wrenched from the big three auto makers 13 additional paid holidays over a three-year period, a pay increase of 3 percent each year plus an additional 20 cents an hour the first year, and generous cost-of-living adjustment bonuses.

When that contract expired in 1979,



The American Federation of State, County and Municipal Employees has shown militance like this in the past, but so far in 1982 it has not risked a strike.

the UAW, without striking, succeeded in getting another 3 percent wage increase each year for the next three years, more cost-of-living bonuses and a jump in paid holidays from the additional 13 granted in 1976 to 26.

To save their jobs when auto makers' profits began slipping, UAW members last year gave back most of the additional paid holidays and agreed to a wage freeze and deferral of payment of the cost-of-living bonuses.

To labor lawyer Stephen J. Cabot of Philadelphia, the concessions have far-reaching significance. Cabot, who calls himself "pro-employer," interprets the UAW's givebacks as the beginning of the end for labor.

"These are not John L. Lewis' times," he says. "The sweatshops are gone, today's worker is smarter and more independent, and a host of legislation protecting all workers, union and nonunion, has been put on the books so that union affiliation no longer is necessary for the American worker."

Cabot adds: If the labor movement continues to rely on old methods, like its traditional adversarial approach to collective bargaining, it will kill itself.

This adversarial approach extends to its dealings with the Reagan administration—further evidence, some say, of a self-destructive mentality. Kirkland has met with the President only two or three times in the last 18 months. And some of organized labor's top echelon are reluctant to bid Secretary of Labor Raymond J. Donovan the time of day.

Says a moderate Republican congressman: "Unions have become an almost ignorable factor in government."

Labor leaders admit their animosity toward the administration. Even though an estimated 40 percent of union workers voted for Reagan, the AFL-CIO leadership blames unions' current plight on the administration. It cites administration policies for the recession that has thrown thousands of workers out of jobs.

To men like Kirkland, the only logical response is to oust the administration and its supporters in Congress. Unions took up that position on Labor Day last year by flooding the Mall in Washington with placard-carrying workers from around the country for what the AFL-CIO termed Solidarity Day. And Solidarity II is being orchestrated—it is organized labor's name for Election Day in November, when the unions hope to turn out of office those politicians who side with President Reagan.

To achieve that end, the AFL-CIO, at its 100th anniversary convention in New York last November, boosted members' monthly dues from 19 to 24 cents in 1982, and to 27 cents in 1983, to fund a war chest. The receipts, an expected $14 million, are earmarked for support of pro-union political candidates and improving labor's image.

The image does need polishing. A January ABC/Washington Post poll shows 55 percent of the general public think unions should have less influence than they do. The poll reveals that many who feel that way are union members themselves. Six of 10 respondents said union leaders have lost touch with the workers they represent.

Are unions representing the "wrong" workers? Unions have built large memberships in major industries—auto, steel, coal—yet these may not be among the nation's major industries in the next two decades.

The economic and industrial future of the United States, economists say, is in technology—computers, telecommunications, microelectronics. Likewise, organized labor's survival and growth will depend on professional and service workers.

ORGANIZED LABOR must make a transition. Murray Seeger, the AFL-CIO's director of information, says the movement is doing just that. As industry adjusts to a shift in economic patterns, brought on in part by international competition, unions are reacting to the change, he says.

"We went through something like this 20 years ago, with the railroads," Seeger explains. "We had 90 percent of railroad workers organized. When that industry declined, so did a large portion of our union membership. But we adjusted to that loss."

The upcoming adjustment could be more difficult, however. Wayne L. Horvitz, former director of the Federal Me-

PHOTO: DENNIS BRACK—BLACK STAR



About 4,000 robots are used today in U.S. manufacturing (12,000 in Japan). The effect of such increasing technological change has organized labor concerned.

Major Losers and Gainers

	Membership (In thousands) 1978	1980	Percent Change
United Rubber Workers	178	151	−15.2%
International Oil, Chemical and Atomic Workers	180	154	−14.4
United Auto Workers	1,499	1,357	− 9.5
American Federation of Musicians	330	299	− 9.4
Amalgamated Clothing and Textile Workers	501	455	− 9.2
International Ladies Garment Workers	348	323	− 7.2
United Steelworkers of America	1,286	1,238	− 3.7
International Brotherhood of Teamsters	1,924	1,891	− 1.7
International Brotherhood of Electrical Workers	1,012	1,041	2.9
Service Employees International	625	650	4.0
International Association of Machinists and Aerospace Workers	724	754	4.1
United Food and Commercial Workers	1,236	1,300	5.2
American Federation of State, County and Municipal Employees	1,020	1,098	7.6
Communications Workers of America	508	551	8.5
American Federation of Teachers	502	551	9.8

Source: Department of Labor

diation and Conciliation Service and now a labor consultant in the Washington area, notes that the country these days "is making less steel and more hamburgers, but it is harder to organize McDonald's than a steel plant."

He offers two reasons why unions are having problems with today's troubled industries: "Unions still are suspicious of management, and union leadership also is not very forward-looking." Because unions are still trying to sell the same old goods of years back, Horvitz says, "some people are concluding that organized labor is no longer needed in this country."

"The technological revolution is the key to the labor movement's future," says Harley Shaiken, research associate in science, technology and society at the Massachusetts Institute of Technology. "Labor is entering a new phase. It must gain a measure of control over technological change."

Such transitions are not unprecedented in organized labor's history. The industrialization in the late 19th century, the introduction of the assembly line, the mechanization of crafts—all confronted the labor movement.

"Technology changes are a problem that organized labor has contended with for 100 years," reflects Dunlop.

Cabot is not sure that labor can make the transition this time. He believes an increasingly enlightened management continues to thwart union growth by offering attractive wages and benefits. Many of his fellow labor experts agree, but they don't see management adequately addressing workers' grievances.

Says Horvitz, "Management is much more alert and sensitive to the economic needs of workers than it is to workers' rights. And I don't believe organized labor's role in defending those rights is going to diminish."

THOSE RIGHTS, according to union leadership, extend to having a job. As Horvitz says, "Any large pool of unemployment becomes a serious national problem."

He advocates more cooperation between management and labor and cites a conversation in Cleveland some years back to illustrate that both sides stand to lose without accommodation.

It occurred at an auto engine block plant between the late Walter P. Reuther, then United Auto Workers president, and a plant manager. A new machine had been installed that, in general terms, accepted a rough piece of metal and transformed it into an engine block.

"Walter, how are you going to get that machine to pay dues?" the plant manager asked.

Reuther replied: "And how are you going to get that machine to buy a car?"

Critics of labor unions say labor leaders too often take an adversarial position. Some believe the leaders will never abandon the stance. The feeling is they can't. Historically, business and government generally determine economic policy, and organized labor reacts. Management is profit-oriented; organized labor is protective.

Critics point out that for a common good, both sides can make—and have made—accommodations: Management grants workers' benefits in good times, organized labor returns the benefits in hard times.

But such benevolence is not the norm. And in the 100 roller-coaster years of the AFL-CIO, none of its leaders during the worst of times ever even hinted that organized labor, by granting concessions, was content merely to survive.

To the contrary. Organized labor's turbulent history, says Herbert G. Gutman, history professor at the City University of New York Graduate Center, suggests "it would be unwise to assume that the labor movement will not again rise to vigor and importance." □

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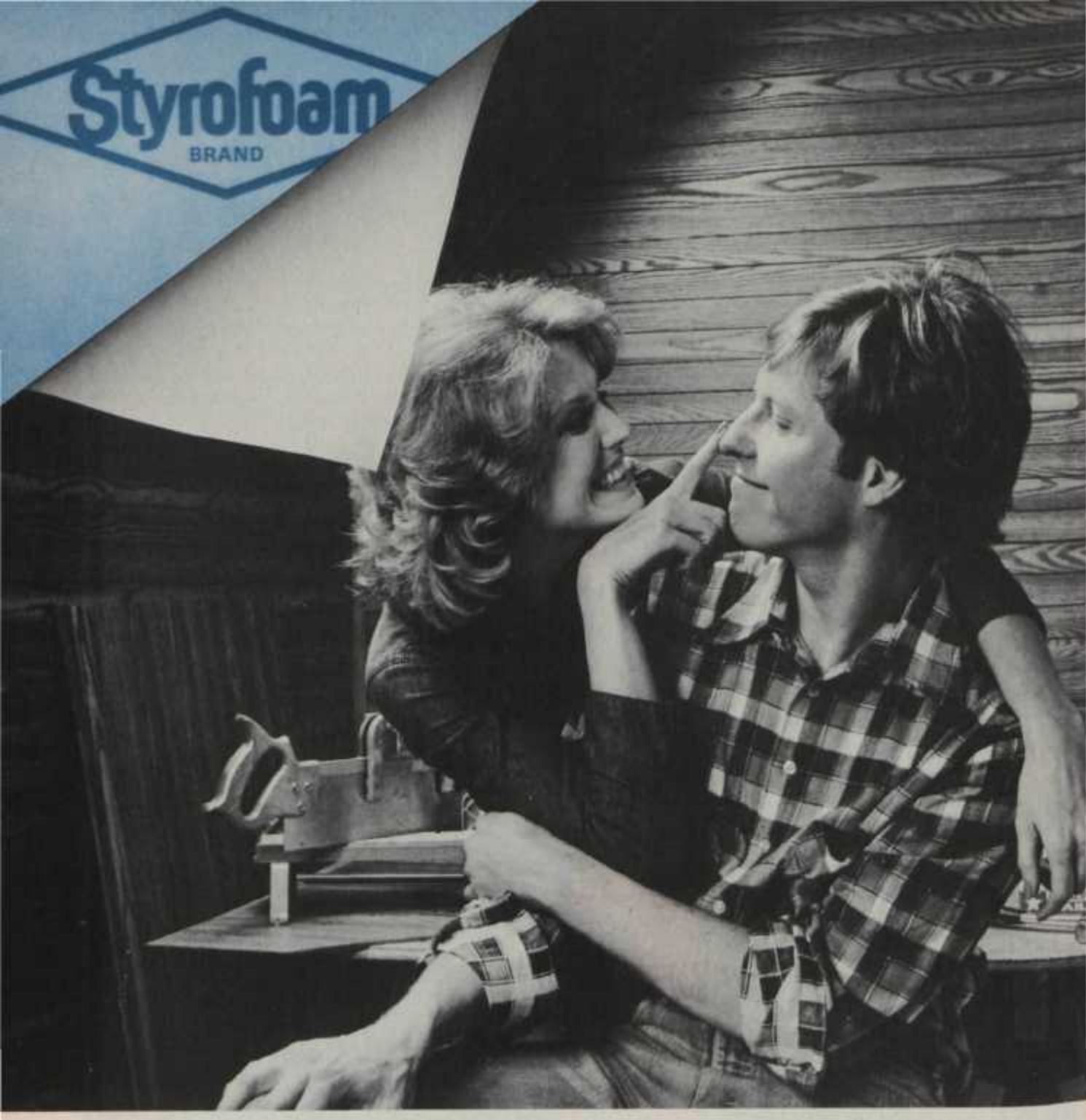
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The Job Ahead On Equal Employment Regulations

Business complains of rules that conflict, confuse or are just plain unfair.

By Mary Tuthill

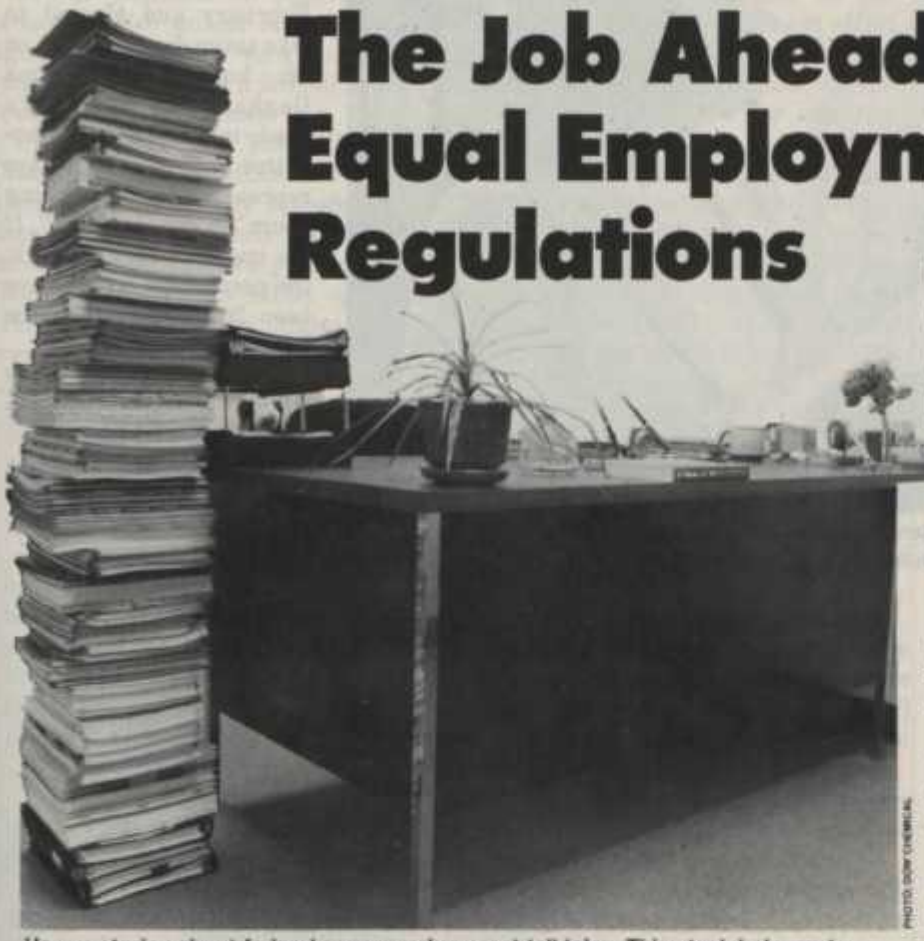


PHOTO: DOW CHEMICAL

Horror stories about federal paper work are not tall tales. This stack belongs to Dow Chemical, which underwent five contract compliance reviews in three years.

ADMINISTRATION policy on equal employment opportunity is coming under fire from two directions these days. Business complains that promised relief from some restrictions has not been forthcoming. Meanwhile, many women and members of minorities say the administration, through delay and lax enforcement of existing regulations, is turning the clock back.

The slowness with which a new Equal Employment Opportunity Commission chairman was named is frequently mentioned as an indication of disinterest. It took the administration several months to nominate William Bell, who is black. Eight months later Bell's nomination was withdrawn after his qualifications had been challenged. Finally, in mid-May, Clarence Thomas, former assistant secretary of Education, was sworn in to head the commission.

Thomas, a conservative black, is known for his opposition to racial preference in hiring. He believes preference stigmatizes blacks by giving the impression that they get jobs without having to meet the usual qualifications.

This philosophy is in line with that expressed by President Reagan. In a policy statement last January, the President said his administration would "not allow the concept of equal opportunity to be distorted by federal guidelines or quotas based on race, ethnicity or sex" and would "rely on ability and qualifications as the primary factors in hiring or education."

Nevertheless, business experts in the field say, employment goals and timetables that translate into guidelines and quotas are being set by another federal agency that deals with discrimination—the Labor Department's Office of Federal Contract Compliance Programs.

The OFCCP and the EEOC cover much the same territory. The OFCCP has jurisdiction over some 325,000 companies that handle federal projects under contract, and its rulings (except for provisions covering handicapped workers) apply to the entire company, not just the portion doing work for the government. Its antidiscrimination enforcement leans heavily on affirmative action—efforts to hire minority and female employes.

The EEOC's job is to enforce Title VII of the Civil Rights Act of 1964: put simply, to ensure that firms with 15 or more employes do not discriminate.

Overlap between the two agencies has long been a sore point with business. Business argues that the overlap is not cost-effective and leads to conflicting directives.

Business groups say they hoped that by now such conflicts would have been eliminated and clearer, more sensible policies established in some areas.

ONE PROBLEM they cite is testing of employes. The EEOC and the OFCCP have held that employe tests that result in disproportionately high failure rates for minorities are illegal unless they are closely related to the job. Employers counter that they need clear criteria to judge what tests qualify as job-related.

EEOC General Counsel Michael Connolly denies that enforcement has been lax under this administration. He says his agency has functioned effectively despite its long period without a chairman. He reports that "in a vigorous program" it processed more cases in the first eight months of fiscal 1982—collecting over $35 million for people who charged they didn't get jobs or promotions because of discrimination—than in any previous full year. Last year $19.6 million was collected, and the year before $29.4 million.

The cases involved settlements with



PHOTO: DEPARTMENT OF LABOR

Ellen M. Shong, director of the Office of Federal Contract Compliance Programs, discusses her plans to reduce and simplify agency regulations with her deputy, Charles R. Pugh.

employers. The EEOC can file suits but does so only if it can't work out an agreement. Some of the cases dated back to the 1970s.

"Employers who were involved in old cases were pleased with the settlement agreements," says Connolly. Though generally in favor of expedited hearings, businesses have frequently not been pleased with methods used to conclude the cases, complaining that safeguards necessary for fairness have been ignored. Says Connolly, "When you get a good settlement, both sides are unhappy."

OFCCP's emphasis on affirmative action has its defenders. A management consultant who advises firms on compliance with antidiscrimination laws contends that as long as equal employment is the law, affirmative action can be used to correct some of the problems that leave companies vulnerable. Says Todd Jagerson, president of EEOServices, New York: "A lot of people simply don't understand how useful affirmative action is to business."

THE SENATE COMMITTEE on Labor and Human Resources recently completed a year-long study to evaluate OFCCP's effectiveness. The committee, chaired by Sen. Orrin G. Hatch (R-Utah), reported: "What was debated was not whether there should continue to be a federal investment in equal employment opportunity or in affirmative action. There was strong support for both. What was at issue was whether OFCCP's current regulatory program is . . . the most effective, practical and equitable method available."

Testimony revealed excessive paper work and many inequities, frequently resulting from lack of flexibility by OFCCP specialists reviewing employment practices.

Small businesses, forced to cope with regulations better suited to large firms, suffered most.

Example: Monthly manpower reports that consider hours worked instead of number of individuals on the payroll created a nightmare for one employer. An OFCCP audit of Gaghan Plumbing Company, Alexandria, Va., in April, 1979, showed that in February minority employment had dropped to 18 percent of the hours worked. The figure was supposed to be 25 percent of Gaghan Plumbing's work force of five.

"The one minority member we had was married in February and elected to take seven days off to go on his honeymoon," Alma Gaghan, the company's head, told the Senate committee. "Those seven days represented 56 working hours on the job site." If the man had been at work, the percentage would have been 26.6, better than the required 25.

Gaghan asked the OFCCP specialist why he had not allowed for the employe's time off; she was told she should have hired another minority member to replace him.

If she had, she would have faced another problem: She would not have been permitted to lay off the second minority employe when the first returned. She was informed she would have had to fire a nonminority employe, regardless of seniority.

GAGHAN, WHO TOLD the committee that she is "of Filipino-Mexican-Spanish origin" and has "no prejudice against other minorities and certainly not against women," said that to try to justify her position, she made an appointment at an OFCCP office—and showed up, even though she was suffering from pneumonia.

The government employe she was to see did not show up, and no one else

PHOTO: DENNIS BRACK—BLACK STAR



Clarence Thomas, newly appointed chairman of the Equal Employment Opportunity Commission, has a record of opposition to systems of preferential hiring.

would talk with her. The next day Gaghan was hospitalized, and soon after she gave up her business.

OFCCP decisions on seniority systems to which unions and employers agree were another sore point with business groups until a federal appeals court ruling last summer.

In accordance with Title VII of the Civil Rights Act, the EEOC had held all along that a seniority system established before 1964 could not be ruled invalid on discrimination grounds, even though the system's effect was discriminatory, unless the original intent was to discriminate. But the OFCCP attacked a number of pre-1964 seniority systems. It has not done so, however, since the appeals court overturned its decree in one such case.

PHOTO: DON CARSTENS



Forms for one affirmative-action case weigh 65 pounds, says Estelle Fishbein, Johns Hopkins University's counsel.

A Supreme Court decision this year has reduced still further the likelihood of federal action against seniority systems. In a decision involving the American Tobacco Company, the Court extended the provable intent philosophy to systems set up after 1964.

THE BURDEN OF PAPER WORK in an OFCCP review was pinpointed by results of a questionnaire distributed to contractors during the Senate committee study. After the outset of reviews, the OFCCP asked 68 percent of contractors for additional data. Filling the requests generally took hundreds of pages of material and an average cost of $12,698.

As a result of its study, the committee made recommendations that included putting less emphasis on procedure and more on generating jobs, reducing the paper work and regulatory costs, encouraging job training programs and using flexible standards to measure equal opportunity compliance.

Ellen M. Shong, director of the OFCCP, says rules should be in effect by midsummer that would ease the burden for business without reducing employment opportunities for minority members or women.

Most of the changes would simplify filing requirements. Also, the OFCCP would restrict circumstances under which it would seek back pay for alleged victims of discrimination. Business groups believe the back-pay question should be not in the OFCCP's domain but in the EEOC's.

Christopher Luis, a U.S. Chamber of Commerce labor lawyer, says a new version of the executive order that set up the OFCCP is needed. "Effective wholesale revision of the web of regulations created over the years would be difficult, if not impossible," he says. "We need a clean slate—a return to fundamentals, an emphasis on substance, not form."

Shong says she came to the OFCCP with three goals: "The first is to complete regulatory reform so that we have a coherent, codified list of requirements that eliminate unnecessary paper work, among other things. The second is to remove what I consider to have been a previous focus on procedure rather than on performance. The third is to acknowledge the need for, and take steps to achieve, a partnership with business, constituency groups and labor."

She has established liaison groups with several industries and hopes to involve more. Some have produced monographs that will help OFCCP specialists understand an industry and its special problems before conducting an audit.

Shong is also introducing a screening system to weed out complaints without merit before a specialist is sent to see a contractor. Many complaints, she says, deal with employment practices that are lawful.

"Ultimately," she says, "the administration will be judged on what it does, not on what people thought might happen, feared might happen or wished might happen." □

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Ins and Outs Of The Retirement Age Issue

IN PROCLAIMING this May as Older Americans Month, President Reagan called for elimination of mandatory retirement because of age in the private sector.

Under present law, employers can require retirement at 70.

"When it comes to retirement," the 71-year-old Chief Executive said, "the criterion should be fitness for work, not year of birth. . . . Many individuals have valuable contributions to make well beyond 70 years of age."

But the issue is controversial, and the administration has not yet endorsed a specific legislative proposal.

Business wants to be heard in the drafting of the legislation, which would have an increasingly significant impact on personnel policies as the ranks of individuals over 65 continue to expand.

Complications in dealing with this seemingly simple issue start with the term "mandatory retirement age."

In 1967 the original Age Discrimination in Employment Act made it a violation of federal law to discharge a worker between 40 and 65 solely on the basis of age.

The law provided for a jury trial in civil actions alleging age discrimination and for double back pay in cases of willful discrimination. Other antidiscrimination laws have no such provisions.

In 1978 the age limit was raised to 70. Executives entitled to pensions of $27,000 a year or more were exempted. Exceptions already in the law for workers in certain physically demanding occupations were continued.

Generally, however, Congress ignored the effect of the change on pension plans and other benefits geared to what had been the generally accepted retirement age of 65.

Under present federal policy, employers do not have to contribute to the pensions of workers past age 65, and retirement benefits do not have to continue to accrue for such employes. However, the question is addressed only in a somewhat nebulous regulation. Business generally would like to see the nonaccrual policy formalized in the law. Other goals:

- Eliminating the guaranteed jury trial and the double-damage award, putting the law on the same basis as other antidiscrimination statutes.
- Lowering the amount of pension income at which executives are exempt from coverage of the act.

While hoping the administration will support legislation keyed to business concerns, private sector organizations are keeping a close watch on a pending bill that contains provisions in conflict with business goals.

The measure, sponsored by Rep. Claude Pepper (D-Fla.), chairman of the House Select Committee on Aging, would eliminate any age limit under the age discrimination law, require employers to keep contributing to pension plans for workers past 65, on the same basis they do for those under 65, and abolish the executive exemption.

A pending bill would require employers to keep contributing to pension plans for workers past 65 on the same basis they do for those under 65.

"Mandatory retirement is a cruel euphemism for forced unemployment," says Pepper, 81.

Some studies indicate that the immediate impact of a higher retirement age would be relatively light.

A Labor Department survey shows that increasing the age from 65 to 70 caused little change in employe retirement patterns and that elimination of mandatory retirement would add only 450,000 to the work force by the year 2000. The department reports that employers of 49 percent of the work force do not now impose a mandatory retirement age.

Acting under a provision of the federal law, eight states have eliminated the mandatory retirement ceiling by prohibiting employers from discharging workers solely on account of age—at any age.

The outlook for action on federal legislation this year is uncertain. One Washington expert on the issue points out that the Pepper bill is unlikely to become law without President Reagan's support, which it is not expected to receive.

And an administration bill embodying business objectives would probably run into trouble in the House, where Pepper has a strong voice on matters concerning the elderly.

Regardless of what happens in Congress, however, some observers believe population trends are working in favor of older individuals who want to remain in the work force.

Demographers point out that the over-65 population is growing while the number of 18- to 24-year-olds entering the job market is shrinking.

Older workers, particularly those with skills and experience in short supply, will be in demand, experts say. And employers note that older workers are often more reliable and efficient than younger ones.

The question of the most feasible age for retirement is being explored in still another forum: a national commission that later this year will recommend ways to strengthen the Social Security system. The panel may recommend, among other steps, that the age at which a worker becomes eligible for full benefits be raised from 65—where it has been since the Social Security system was established—to 68.

If approved by Congress, such a change would probably be phased in over several years.

Some experts on the issue say the age at which an individual can collect Social Security has a far greater impact on determining actual retirement than any ceilings established under discrimination laws. □

Bills in the Backlog

THE CONGRESSIONAL BACKLOG of issues of major importance to business grows bigger rather than smaller as the 1982 legislative session moves into its final months.

Congress hopes to adjourn by October 8 to allow full-time campaigning by members up for re-election, and prospects for action on a significant number of the pending issues by that time are considered remote.

The protracted battle over fiscal issues, conducted in a highly charged political atmosphere because of the elections, is largely responsible for the logjam.

Fiscal considerations will continue to dominate the legislative agenda in the coming months, further restricting time for consideration of other matters.

The first budget resolution, which sparked such controversy in the House of Representatives, was only the beginning of the long, complex budget process.

To implement the resolution's goals, members must enact 13 appropriations bills and deal with tax measures to implement proposals for added revenues. Nearly all such bills are certain to become individual centers of fiscal controversy.

These are among the other issues business will be watching closely as the 97th Congress begins assigning priorities on consideration of bills for the remainder of its session:

Clean Air Act. Business groups have been pressing for prompt action on legislation to ease some provisions that critics say have blocked economic growth without contributing to the act's goals.

Clean Water Act. The Environmental Protection Agency only recently submitted its recommendations for amending this other major environmental statute, and prospects for final action this year are slight.

Criminal Code. A new effort has been launched to win enactment of legislation to consolidate the criminal code. Business concern centers on provisions covering corporate responsibility.

Dairy Price Supports. The administration wants to revise this program to reduce its cost.



ILLUSTRATION: JOHN HEINLY

Export Trading Companies. This legislation to stimulate export by medium-sized and small firms would remove antitrust barriers and facilitate financing.

Fair Labor Standards. Employers would be required under this measure to pay treble damages if found guilty of violating federal wage scales.

Federal Trade Commission. A bill to reauthorize this agency would also clarify powers that critics say have been abused.

Government Contracting. Business is opposing key provisions of bills seen working against government use of private contractors, rather than federal employes, where possible.

Illegal Aliens. A bill to deal with the problem of illegal aliens would have employers of more than three people require job seekers to prove legal status, and it would fine employers who knowingly hired illegal aliens.

Job Training. CETA, the Comprehensive Employment and Training Act, will expire this fall, and Congress is working on a more effective plan to replace it.

Longshoremen's Act. This most generous of all workers' compensation programs has applications beyond that suggested by its name, and legislation to revise it is pending.

Nuclear Waste. Permanent storage sites for spent nuclear fuel would be established under industry-supported bills deemed essential for a viable nuclear power base.

Patent Term Restoration. This bill would extend the life of patents to offset marketing years lost through delay caused by government regulations.

Pension Equity. Contributions to and benefits from pension plans would be limited under this proposal, which is opposed by business.

Regulatory Reform. Cost-benefit analyses on proposed new federal regulations and periodic review of existing rules would be among reforms mandated by this measure.

Small Business Innovation Act. Under this bill, federal agencies that have research and development budgets over $100 million would have to set aside specified amounts for small businesses.

Trade in Services Act. The measure would promote U.S. foreign trade in services and strengthen the government's authority to break down foreign barriers to U.S. trade.

Trade Reciprocity. This bill would allow the United States to retaliate against countries not granting reciprocal market access for goods and services.

Unemployment Compensation. Unemployment benefits would be extended for 13 weeks in high-employment states. The bill would also provide for general funding of administrative costs and lower the limit above which benefits become taxable. □

Contributions To Culture

IT WAS a memorable lunch hour for the employes of the Amway Corporation headquarters plant in Ada, Mich.

Mstislav Rostropovitch, music director of the National Symphony Orchestra and a world-famous cellist, sat alone on the stage of the plant's auditorium, alternately playing classical selections and discoursing on the history of his cello, crafted by Antonio Stradivari in 1711.

After each piece, the applause grew more enthusiastic, as Amway Chairman Jay Van Andel knew it would. He turned to one of his employes and remarked, "There is no better vehicle to bridge the communication gap in the world than music and the arts." It may also be that there are few better vehicles for culture in this country than Van Andel and his partner, Richard M. DeVos, Amway's president.

Months before the lunch-hour concert last winter, Amway had announced that it would fund a 17-concert tour of eight European countries for the Washington-based National Symphony Orchestra. Rostropovitch was showing gratitude with his appearance in Ada.

The announcement reported that Amway's contribution would be $250,000. Before the tour ended, it was nearer $500,000. But Van Andel and DeVos, who have built one of the world's largest direct-sales companies, never flinched. They agree wholeheartedly with the administration's position that corporations, now more than ever, must support the arts and thereby help take up the slack caused by cuts in the budget for the National Endowment for the Arts.

But then Amway has been in the forefront of contributions to culture through several administrations. Van Andel and DeVos say that to support the arts is to help establish "a universal language of understanding between nations."

The two men have been speaking such a language in the United States as well as in Europe. At a cost of millions. From their profits they have helped build a performing arts center in Grand Rapids, the nearest major city to Ada, and have offered to contribute $1 million for a new coliseum in that city. They commissioned local artists to provide paintings and sculptures for the luxurious, Amway-owned Grand Plaza Hotel in Grand Rapids.

To Amway's 4,500 employes in Ada, its 3,000 other employes worldwide and its 1 million independent distributors, many of whom journey to Ada for plant tours, the corporation's headquarters look almost as much like an art gallery as a manufacturing plant. The hallways, the massive lobby and the adjacent executive offices abound with weavings and carvings, paintings and metalwork.

Philanthropy to the arts is growing, yet it still ranks next to last among donors' earmarked funds.

For example, according to the National Council on Arts, private gifts rank as follows: 49.1 percent to religion, 15 percent to education and research, 14.4 percent to health services, 10.4 percent to human services, 6.7 percent to the arts and 4.4 percent to civic and social action.

And corporate gifts do not constitute a large percentage of contributions. Private support of the arts comes mostly from living individuals, 85 percent, with 5 percent each from corporations, foundations and bequests.

Xerox Corporation, like Amway, believes a corporation "must be an inte-



Mstislav Rostropovitch (left) learns of Amway generosity from Board Chairman Jay Van Andel.

PHOTO: JACK BUSBAUM—NATIONAL SYMPHONY

gral part of the communities where its employes live and work," says a Xerox spokeswoman. The firm has instituted a residency program with orchestras across the country for budding concert pianists.

Philip Morris, Inc., a supporter of the visual and performing arts for more than 20 years, recently put up $150,000 for a national tour by the Joffrey Ballet of New York.

For the first time in its 99 years, New York's Metropolitan Opera received a corporate grant this year for its annual spring tour. Merrill Lynch, Pierce, Fenner & Smith contributed $300,000 to bring the Met to cities around the country. According to Senior Vice President Herbert Ruben, "the gift is from our local offices to the people in their communities."

American Express Company recently conducted a Florida charge-card promotion during which it contributed to the state's cultural program 1 cent each time a resident used an American Express card and $1 for each new card account. The contributions added up to $55,000.

Ciba-Geigy Corporation President A.M. MacKinnon has conducted symposia around the country on business and the arts. He points out that "business support for the arts is about $436 million per year—three times more than the federal government provides through the National Endowment for the Arts. And that support from business has been increasing steadily since 1955." But, he adds, much of business' support goes toward such big-ticket items as public television and major exhibitions at large museums. "Thus," he says, "the support is not as widespread as the dollars might make it appear. Many companies are not providing support, and many groups and artists are without it."

ACCORDING to the Conference Board, a nonprofit business research institute, many U.S. companies are unlikely to increase their contributions budgets this year to fill the gap caused by substantial cutbacks in government spending for the arts. A board survey of more than 400 large companies that provide significant amounts of U.S. corporate philanthropy shows that although 60 percent of the companies plan normal increases in their contributions this year, only 6 percent are increasing contributions in response to government cuts.

Executives in the arts attribute this attitude to the declining profits of corporations and to reductions in tax rates this year from a ceiling of 70 percent to 50 percent. That tax cut has made charitable deductions less advantageous.

Much of business' support goes toward such big-ticket items as public television and major exhibitions at large museums. As a result, many groups and artists are without support, says one fund raiser.

Obtaining corporate contributions challenges Francis S.M. Hodsoll, chairman of the National Endowment for the Arts. The organization's federal grants last year totaled $158 million. This year they were cut to $143 million. Reagan's proposed 1983 budget calls for $100 million.

Hodsoll sees his challenge as "educating people to the importance of the arts so that the arts become part of our basic menu . . . to encourage a view of the arts less as entertainment than as a significant part of our civilization."

Amway's Van Andel couldn't agree more. He also believes that the private sector is mainly responsible for doing the educating.

"Personally, I believe taxpayers' funds should be used for the benefit of all taxpayers, and not everyone enjoys symphony music, for example," he says. "Therefore, those who enjoy it should support it." It is a view much more common in America than in Europe, where governments heavily subsidize artists and concert halls.

Amway's sponsorship of the National Symphony Orchestra tour in Europe was seldom mentioned in newspaper reviews of concerts. But, having built a home basement operation into a company now doing $1.4 billion in sales annually, Van Andel and DeVos are astute entrepreneurs. They are cognizant of the indirect benefits that can be generated by the corporation's support of the arts.

During the tour, Van Andel had two, sometimes three, speaking engagements daily before heads of state and influential U.S. executives. He met with Amway executives abroad. A former board chairman of the U.S. Chamber of Commerce, he exchanged economic forecasts with heads of American chambers of commerce in Europe. And as national chairman of the Netherlands-American Bicentennial Commission, he was instrumental in arranging two visits to the United States this year by Holland's Queen Beatrix.

Van Andel admits that "there has to be some return to the business in the sponsorship of cultural activities." In the case of the orchestra tour, the return, besides that from his high-level meetings, was in the attitudes of the general public, he says. "Our European market is new but growing fast. We were able to bring in our top distributors to the concerts and to the parties that followed them. Distributor pride is very important in Europe."

A corporation can gain benefits of that type by sponsoring a championship boxing match or a television soap opera. The arts do not have the same mass appeal.

Corporate involvement in the arts, therefore, often is predicated on the personal interest of one or more of the executives. Had Van Andel never emerged from the basement, had he continued to work on a liquid detergent formula rather than grown wealthy manufacturing and marketing more than 350 home and personal care products, art and music still would have been a passion with him.

That was evident when Rostropovitch finished his lunch-hour concert in Ada. Van Andel was first to his feet with applause. □

—Del Marth

To order reprints of this article, see page 65.

NATION'S BUSINESS this month launches a regular feature designed to determine views of our business and professional readers on pending Washington issues of major concern to the private sector. Results of each monthly poll will not only be published as soon as possible following tabulation but will also be brought to the attention of decision makers in the White House, Congress and the appropriate agencies.

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YES ☐ Projected federal deficits threaten to keep interest rates at levels that would prohibit sustained economic recovery. Political pressures on Congress make it impossible for members to lower deficits solely through more spending reductions. Rolling back tax relief in exchange for lower interest rates would be a relatively small price to pay for the long-term benefits of lower interest.

NO ☐ Economic stability will be achieved only when Congress demonstrates a firm commitment to fiscal restraint by slowing the growth of both taxes and spending. Rolling back tax relief rather than reducing outlays would mark a return to the discredited policies that caused the nation's economic problems in the first place. Congress must find the courage to make further spending reductions.

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Two Parties In Similar Boats

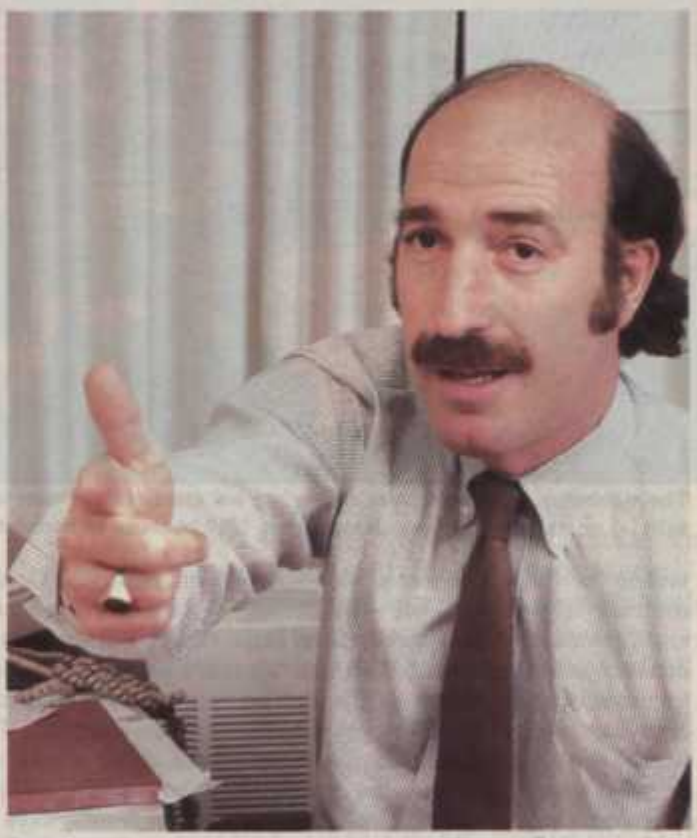
Campaign '82

Democrats and Republicans alike face rough sailing in dealing with the central issue of the election—the economy.

By Barry Crickmer



GOP Chairman Richard Richards hopes for a stronger economy.



Democrat Gene Eidenberg wants a referendum on Reaganomics.

IF CANDIDATES for the 435 House and 33 Senate seats at stake in the 1982 election had to run at large, the Republicans would be in big trouble. At least, that's the verdict of recent national opinion polls.

But congressional contests are not decided nationally, the election is four months away, and the Democrats are hedging their victory projections. The Republicans' troubles appear smaller than might be expected, given the state of the economy. It is the major issue in the campaign.

The economy so overshadows everything else that the so-called social issues—important in 1980—have been shoved aside.

Democrats see in the recession a lethal weapon to wield against Republican opponents, but they seem to be having trouble finding the handle. After loudly condemning the record federal deficits facing the administration, they are constrained from championing the costly federal rescue efforts associated with their party in the past.

Republicans—admittedly on the defensive—are pursuing two strategies. One is to convince voters, through an extensive media campaign, that current economic problems result from previous decades of Democratic mismanagement. The other is to pray that an economic recovery manifests itself before Election Day.

In the first endeavor, at least, they are aided by a fund-raising apparatus so efficient that it is openly envied by their opponents. Gene Eidenberg, director of the Democratic National Committee, says he expects Republicans to raise "10 to 15 times as much" at the national level as the Democrats.

"We're doing well, but not as well as the Democrats say we are," responds Richard Richards, chairman of the Republican National Committee. "Well" means the Republicans will have more than enough to give the maximum legal amount to any GOP candidate who might benefit from it and still spend another $10 million on television spots.

However, it is difficult for the Democrats to make political capital over their lack of the other kind. First, Democratic candidates tend to raise a lot of money individually. Democrats spent a total of $121 million on congressional races in the last election, compared with $116

'82



Computers are now used extensively in revising congressional district lines.

PHOTO: JIM ROCKWELL—STOCK/HMS

Congressional Redistricting



The number of representatives each state will elect in November is shown above, with (+) or (–) indicating any change from 1980 because of population shifts.

million for the Republicans. Also—and contrary to popular belief—the Democrats get more of their money from big donors. Contributions of $500 and up accounted for 29 percent of the Democrats' net receipts in 1979-80 yet only 19 percent of Republicans'. Richards proudly points out that the average GOP contribution last year was $26.

THOUGH the economy and the funding disparity are double-edged swords for the Democrats, one issue isn't. It is usually summed up in a single word: fairness. Polls consistently show that Americans perceive the Reagan administration's policies as tilted in favor of the affluent. Observers from all points of the political spectrum say this is the biggest cross the Republicans have to bear. "Once people have that perception, it's pretty hard for the President to change it," says Rep. Tony Coelho (D-Calif.), chairman of the Democratic Congressional Committee, a fund-raising group for House Democrats.

"We think we are beginning to turn it around," says Rich Galen, press secretary of the National Republican Congressional Committee. But he follows that with a more pessimistic observation: "There's very little we can do. It's a matter of making sure our people are carrying a positive message."

Others say the Republicans haven't been doing a good enough job of that. "The Republicans must present a more united front," says John Kochevar, director of the National Chamber Alliance for Politics, a political action committee established by the U.S. Chamber of Commerce to donate advice and other in-kind services rather than cash. Kochevar adds:

"The problem right now is that the seemingly endless debate over how to solve the economic woes of the country can only lead the American people to say, 'Maybe we were wrong in 1980, maybe Reaganomics won't work.'"

Terry Dolan, who heads the National Conservative Political Action Committee, concurs. "Reagan is avoiding the issues that got him elected in 1980," he says. "That's a formula for political suicide. If you don't give Democrats a reason to change their voting behavior, they won't. By making the party stand for something, you increase your membership. Reagan did that in 1980."

IRONICALLY, Democrats are getting similar advice. "The Democrats who are confident that all they have to do is pick up the pieces in 1982 may be a little overly optimistic," warns Russell Hemenway, head of the National Committee for an Effective Congress, a 34-year-old PAC that donates advice and services to liberal candidates. He says many Democrats are "me-too-ing" their Republican opponents: "When the Democrats fail to put forward a clearly articulated countervailing philosophy, it doesn't surprise me that people say, 'Well, maybe we ought to stick with what the administration is proposing.'"

Hemenway puts his finger on the Democrats' biggest problem: how to distinguish themselves from the Republicans when the political center of gravity has shifted to the right.

Adds Eidenberg: "I don't think we will return to the free-spending federal programs of the 1960s. We saw a reaction in 1980 to one end of the continuum, and we are seeing in 1982 the beginnings of a reaction to the other end," he says. "People don't want this pendulum to swing 180 degrees every time it moves. They want a Democratic Party that is going to be disciplined, knows how to set priorities, can say no to some claims and yes to others, and be more balanced and more fair."

Perhaps because of the near-universal perception that the country is more conservative now, most experts predict that the conservative philosophy will emerge from the 1982 election in better shape than the Republican field.

Coelho says, "I think that, overall,

PHOTO: ART STEIN



Orrin G. Hatch of Utah is the most vulnerable Republican senator this year, experts say.



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you are going to see the House get more moderate." Does that mean he sees a trend to the right? "Yes," he says, "even among the Democrats."

Looking at the same subject from another perspective, Joseph J. Fanelli, president of the Business-Industry Political Action Committee, predicts that "the business-oriented coalition in the House has every chance of maintaining itself, even with a 20-seat GOP loss."

(There are now 191 Republicans in the House and 242 Democrats. Two seats are vacant. The Senate lineup is 54 Republicans, 45 Democrats and one independent.)

DO THE Republicans face a 20-seat House loss? Probably not. Predictions of large losses tend to be prefaced by a condition, "if the election were held today." But most observers expect the economy to improve by November. Also, the Republicans are given credit for a strong group of House candidates and for bulging campaign coffers. An informed guess is that they will hold their losses to a maximum of 10 seats.

On the other hand, the Republicans would be doing a lot better if they hadn't been largely outmaneuvered by their opponents in the round of redistricting triggered by the last national census. Seventeen seats shifted from the more liberal Great Lakes and Northeast states to the largely conservative South and Southwest. At one time, the Republicans expected to get nearly all of them. Now they will be lucky if they hold their own.

In the Senate, chances are excellent that the Republicans will hold their own. But that may not be good enough. With Democrats defending 21 of the 33 seats at stake, only a major disaster could cost the Republicans their control of the Senate in this election. But in 1984, the shoe will be on the other foot. Then, 19 Republicans' terms will be expiring. So if the Republicans can't pick up eight or more Senate seats this year, they may lose control in 1984 or 1986.

At the top of everyone's list of vulnerable Republican senators is Orrin G. Hatch of Utah. "There's a very general sense throughout the state that he is out of touch," says Eidenberg. "Despite Utah's conservative nature, they want a conservative middle-of-the-roader who is worried about Utah, and Hatch has only lately been talking Utah-ish." Eidenberg thinks the state

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may find that middle-of-the-roader in Hatch's opponent, Salt Lake City Mayor Ted Wilson.

National groups are pouring a lot of money into the race, although organized labor's contribution is being exaggerated, according to Victor Kamber, a former associate of George Meany, the late president of the AFL-CIO, who now heads a labor-oriented political consulting firm.

"The most anybody ever got in cash from labor was the $263,000 given to Sen. Harrison Williams [D-N.J.] in 1978," Kamber says. The major value of organized labor's aid, he points out, is get-out-the-vote membership work, and "in Utah we don't have the members."

PHOTO: ART STEIN



Rep. Tony Coelho foresees a more conservative House.

California's Senate race is shaping up as another key contest, but here the Republicans are given the edge. San Diego Mayor Pete Wilson is regarded as a strong opponent for Gov. Jerry Brown, who has his own image problems. After Hatch, Harrison H. Schmitt of New Mexico is considered the most vulnerable Republican senator. Some analysts say Lowell P. Weicker, Jr., of Connecticut and Malcolm Wallop of Wyoming are also vulnerable.

The Senate Democrat in biggest trouble is probably George J. Mitchell of Maine. Next come Quentin N. Burdick of North Dakota and John Melcher of Montana. Two who looked shaky early on—Howard M. Metzenbaum of Ohio and Donald W. Riegle, Jr., of Michigan—are considered safer now because of weak opposition.

In summary, both parties have problems with their stereotypes in this election. The Republicans must find a way to deal with the charge that Reaganomics is unfair to the little guy. The Democrats have to differentiate themselves from the Republicans without implying that they favor a return to the budget-busting ways of their past. The economy is the wild card in the deck. A big swing either way would produce a corresponding swing in the election.

Play Both Sides of the Street?

In 1976, Democrats got 43 percent of the contributions of corporate political action committees, prompting Ronald Reagan to ask, "Why does half of the business money go to candidates who may not be friends of business?"

Actually, that election was not typical, since about two thirds of corporate contributions usually go to Republicans. On the other hand, unions usually give 93 percent or more of their aid to the Democrats.

Should business be more partisan? Democrats preach the virtues of evenhandedness (to the business community, at least), while Republicans say business people should support candidates who believe in the free enterprise system.

Rep. Tony Coelho (D-Calif.), chairman of the fund-raising Democratic Congressional Committee, says greater business involvement in politics is healthy, but he criticizes what he sees as a partisan trend among some business organizations, including the U.S. Chamber of Commerce. (The Chamber's PAC expects that 15 percent of the candidates it supports in this election will be Democrats.) Responds Richard L. Lesher, president of the Chamber: "I'm appalled at people who suggest that any segment of our society should refrain from fighting for its beliefs."

Can business people assure themselves of "access" by giving a little to both sides? "That has about the same effect as kissing your sister," says Dick Thaxton, vice president for political affairs of the National Association of Realtors.

Adds Richard Richards, chairman of the Republican National Committee: "Business people who want to play both sides of the street contribute to the arms race between the political parties. All they are doing is boosting the cost of campaigns."

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A Home Computer's Tax Savings

By Samuel H. Murray

The same home computer that helps you keep tabs on securities, rental income and just about anything else can also help you earn a tax deduction for business and investment use. The purchase price of a computer may be depreciated over five years, and 10 percent of the cost may be claimed as a tax credit. If you lease, the rental payments are deductible. But you must be prepared to demonstrate to the Internal Revenue Service that you use the computer in a business or investments intended to produce income. If your computer is only partly used for business or investments, you must figure the deductions or credits by the percentage of personal use. Keep good records.

Deduction for Burglar Alarms

Security for your home may also be deductible. The cost of a system to safeguard your home against burglary is likely to be nondeductible. If, however, its purpose is to protect a valuable collection of stamps, coins or art that you hold as an investment, the cost of the system may be deductible. That part of the system that has a useful life of more than one year must generally be capitalized and recovered by depreciation deductions over five years. Equipment that doesn't form a structural part of the building is eligible for the 10 percent investment tax credit. Again, be prepared to prove that the assets you are seeking to protect are indeed used for the production of income.

Avoiding Gift Tax

Giving money directly to a friend or adult child for college tuition or medical treatment benefits them but subjects you to tax liability. So instead, pay for the education or medical care itself.

When Congress revised the estate and gift tax laws as part of the Economic Recovery Tax Act of 1981, it carved out from gift tax liability tuition or medical expenses for the nondependent student or patient, exempting payment to the provider of the service from gift tax. However, if you pay the money directly to the recipient of the service, any amount over the $10,000 annual exclusion is subject to gift tax.

Not a Medical Expense

The tax law denies catastrophically ill people a deduction for a major medical expense that's not usually covered by health insurance or Medicare. Often patients are sent to a distant clinic to receive outpatient treatment with X-rays, radium, chemicals or a combination. Treatment may go on for months. The patient must find a place to stay, but meals and lodging are not deductible.

The medical treatment is likely to be covered by insurance. Without the tax deduction for living expenses, however, some patients simply cannot afford the treatment. Some charitable organizations provide low-cost housing, and there are Ronald McDonald houses for parent and child when the patient is a child. But Uncle Sam won't help out.

The law used to permit deductions for meals and lodgings, but the provision was abused by people who wintered in warm climates on the advice of doctors. Now, only the patient's travel cost is deductible. Since outpatient clinics have become prevalent and recognized as less costly than hospitalization, there is a move to encourage Congress to relent and consider meals and lodging a medical expense.

Counselor, Inc.

Lawyers are incorporating their practices in droves. For years, most state laws forbade professionals to practice in the corporate form. But a decade ago, when Congress refused to give self-employeds' pension benefits the same breaks as corporate retirement plans, doctors lobbied state legislatures to let them operate as professional corporations under special laws.

Now lawyers are using those laws to incorporate. Either they incorporate the partnership, or if they can't agree on benefits, each lawyer can create a one-man professional corporation to which he assigns his partnership interest. Once the professional corporation is set up, it can provide a corporate pension plan plus all the other fringe benefits permitted corporations.

One-Man Corporations

Sole owners of small businesses are incorporating under regular corporate laws. IRS is contesting such one-man corporations—so far without much success—because it wants all the income treated as if earned by the sole stockholder. Part of owners' compensation is in nontaxable fringe benefits, so if the trend continues, the Treasury stands to lose a lot of revenue.

There is talk in Congress of limiting the benefits in one-man professional corporations to those allowed under Keogh plans ($15,000 maximum per year). Rather than put self-employeds on a par with corporate pension plan participants, Congress may restrict the benefits of the latter. The ceiling on benefits in qualified corporate plans has been rising because of cost-of-living adjustments. For example, when the Employee Retirement Income Security Act was passed in 1974, the top amount was the lesser of 25 percent of base pay or $25,000. That $25,000 has become $45,475. Similar escalations have boosted the ceiling on pension benefits under a defined-benefit plan. Congress is likely to repeal the COLA provision, and retirement benefits could suffer. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases.*

SAMUEL H. MURRAY *is a tax manager with Arthur Andersen & Company in Washington, D.C.*

Small Business Survival Courses

Colleges are teaching basics to more and more people who run or want to run their own firms.

PHOTO: GLENN FERGERTS



Jim Grammer, a graduate of a community college entrepreneurship program, returns as a guest lecturer to tell students how he succeeded in his business.

WHEN Jim Grammer, a manufacturer and distributor of baby bedding, walked before a crowded classroom at Saddleback Community College in Mission Viejo, Calif., three Ph.D.s in the front row were on the edges of their seats. The scholars had come to Saddleback's night school for basic courses in opening and managing one's own business.

"They wanted to know how I got started, how much capital I had and what hours I was putting in," says Grammer, himself a graduate of Saddleback's entrepreneurship program.

Since 1977, 6,000 students, most of them beyond college age, have completed Saddleback's management, planning and marketing sequence. More than 1,000 of them have formed businesses since taking the courses; many of the others already owned their own firms.

And Grammer, who began his business in his garage five years ago with a $20,000 second mortgage, clearly learned his lessons well: Today Gramco Manufacturing, El Toro, Calif., employs 60 people and boasts 1981 sales of $1.3 million.

Saddleback is no isolated example of entrepreneurship education. Tough economic times are propelling people to community and junior colleges, universities and even graduate schools to learn practical business skills. "Small business people want hands-on assistance—they want to know how to increase profits," says Carol Eliason, who runs a 200-college National Small Business Training Network for the American Association of Community and Junior Colleges.

"Many students learn something at night and apply it the next day," says one educator. Evening courses at a nearby, low-fee community college appeal to the small business person who is already putting in 16-hour days and looking for practical assistance.

But courses are also proliferating at the university level, where courses are often more theoretical. Harvard and Cornell, among other prestigious institutions, even have endowed chairs for entrepreneurship professors.

"University entrepreneurship offerings have gone from eight or nine isolated courses to more than 200 across the country in the past few years," says Edward T. Lewis, associate dean of Cornell's Graduate School of Business and Public Administration. Cornell offers second-year M.B.A. candidates an elective on starting and managing a small firm.

"The entrepreneurs we bring into the classroom are invariably evangelical," Lewis says. "They create in the stu-

PHOTO: CORNELL UNIVERSITY



George Goetz (second from left), small business owner and venture capitalist, is the first professor of entrepreneurship at Cornell's business school.

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dent's mind the possibility of starting his own business."

Adequate capital and business skills are often lacking among new business owners, and failure is always a distinct possibility. The Small Business Administration says new small firms have only one chance in three of surviving four years.

ENTREPRENEURSHIP courses are aimed at helping their students beat the odds. Says Saddleback instructor Lee A. Eckert, who with his teaching partner, J.D. Ryan, won an award this year for excellence in private enterprise education from the Freedoms Foundation: "Most people start a business with less planning than they put into a two-week vacation. We don't eliminate the chance of failure, but we can put the difficulties into more meaningful terms."

Recalls Grammer: "The Saddleback program made me sit down and analyze where I was going and what I was doing." Another former Saddleback entrepreneurship student, Lynn Dick, says the courses "helped tremendously" when she cofounded Travel Country of Irvine in Irvine, Calif. "I had no management experience and couldn't find anyone volunteering to share information," she says.

Who are the new entrepreneurs? "People who want to do their own thing, often baby boomers who feel stymied by corporate America," says Eliason. Their median age is 35, and they aren't particularly interested in course credit. Eckert notes that nearly half of his students are women, many from two-income families. Most new firms are service-oriented because they require less up-front capital—restaurants, auto repair, computer software, sporting goods and other kinds of retailing.

Most small business management assistance courses run six to 10 weeks and cost $50 or less. Three- to four-hour minicourses address special needs: how to make sales agents out of clerks, for example, and how to cut shoplifting. "The fastest-growing course is business applications for microcomputers," says Eliason.

The Saddleback curriculum hews to the basics. By the time a student completes the management, planning and marketing package, he has prepared a business plan for the next 12 months. "You have to have a target, a way to mark your progress," Eckert says.

Here's a sampling of other courses:

• The Thursday College for the Small Business Owners at Stark Technical College, Canton, Ohio, offers seven courses, taught mostly by active small business people. Examples: "How To Start and Manage a Successful Business" and "What Managers Do"; more specialized courses in restaurant management and getting results from a tiny advertising budget are planned. Like many community colleges, Stark uses experts and resource materials from the nearby SBA field office and the local chamber of commerce.

"Most people start a business with less planning than they put into a two-week vacation."

• Northern Virginia Community College's Extended Learning Institute in Annandale, Va., gives home study television courses.

• Colleges in the San Antonio Community College District offer courses in Spanish for retailers in shopping malls to help the merchants communicate with their Mexican customers.

• The Center for Entrepreneurship and Small Business Management at Wichita State University has enrolled as many as 400 students for its summer course, "Your Future in Business." Says Ron Christy, the center's associate director, "We believe that a lack of understanding of the free enterprise system has spawned regrettable antibusiness attitudes." The capstone course is the "New Ventures Feasibility" seminar.

Cornell's Dean Lewis says most M.B.A. students are reluctant to take the risks entrepreneurs face. However, he sees "enormous growth in the number of M.B.A. students willing to look at small business as a real option."

All entrepreneurs start with great hopes, but "we work hard to make them see the element of risk," one educator explains. Accessible, practical courses are helping more small businesses to succeed. □

—Michael Thoryn

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Booming Business

Sales of fireworks in the U.S. are skyrocketing—particularly fireworks made in Communist China.

By Julian Morrison

THIS YEAR, millions of Americans are celebrating the birthday of the Land of the Free with communist fireworks. Increasingly, the booms and bangs, the sparkling showers of gold and silver, the blossoming aerial chrysanthemums that enthrall countless Americans on holiday nights are coming from the People's Republic of China. In an industry that is virtually as labor-intensive as it was in Marco Polo's day, production costs are burning both U.S. fireworks manufacturers and American workers.

The problem is not that the market isn't big enough. Fireworks' popularity is skyrocketing. Americans last year set off an estimated $130 million worth, according to the American Pyrotechnics Association. The U.S. International Trade Commission says the use of fireworks grew from approximately 23 million pounds in 1967 to 43 million in 1981.

But that growth has come from imports—at the expense of domestic manufacturers like New Jersey Fireworks Manufacturing Company. Over the last decade, employment at the company's plants in Vineland, N.J., and Elkton, Md., has dropped from 200 to 80, and the company has closed two other plants.



PHOTO: MICHAEL J. PETTYPOOL—UMPHOTO

The U.S. fireworks industry is a collection of small businesses. About 25 of the 150 members of the American Pyrotechnics Association are manufacturers; the rest are importers, distributors and wholesalers.

Sparklers and other backyard fireworks, which constitute about 70 percent of the U.S. market and about 50 percent of U.S. production, are sold mainly at roadside stands run by individuals or charitable organizations. Most roadside stand operators are in the fireworks business only part-time and handle other seasonal products. Southern vendors have a New Year's selling season. The story is that Southerners stopped celebrating Independence Day with fireworks in 1861. At any rate, New Year's fireworks sales are big business below the Mason-Dixon Line.

Only a small portion of fireworks retailing is handled by chain stores. John A. Conkling, executive director of the pyrotechnics association, gives the reason: "the immense number of state and local laws on fireworks."

It's a distribution problem. "All stores get the same toothpaste," Conkling says, "but you can't send sparklers to County X, and County Y doesn't allow Roman candles."

The multiplicity of laws keeps the retail end of the fireworks industry in the small business category, and lack of automation is likely to do the same for the manufacturing end.

There is virtually no automation for two reasons, Conkling says. The first is the danger that machinery will malfunction and cause a fire or explosion. The second is economics. Manufacturers have been loathe to make the necessary investments because of continual threats—and actual efforts—to prohibit the sale of fireworks. So in the U.S., where automation has been key to world dominance in many industries, fireworks production remains labor-intensive. Workers roll, dip, mix and package nearly everything by hand.

The colossus of fireworks manufacturing is the People's Republic of China—not surprisingly, since the Chinese are credited with inventing the entertainment over 2,000 years ago.

Chinese domination of the U.S. market (see the graph, page 72) was sparked by President Nixon's trade

JULIAN MORRISON *is a free-lance writer based in Washington.*

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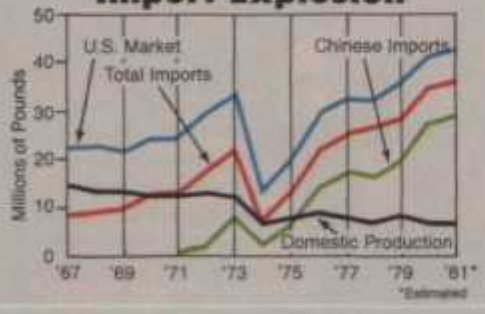
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Like rows of truncated organ pipes, mortars encased in sand for safety stand ready for a July 4 Washington Monument fireworks show. Left: Felix Grucci, Sr., works on the handmade shells used in such displays.



Import Explosion



In 1967 imported fireworks accounted for only 36 percent of the pounds of fireworks sold in the United States. Last year the figure was 84 percent. Chinese fireworks, first imported in 1971, now dominate the U.S. market.

The steep drop in 1974 was prompted by speculation that the Consumer Product Safety Commission would totally ban the sale of fireworks. Bicentennial celebrations in 1976 spurred sales.

Exports of U.S. fireworks, never significant in the world market (and too small to register on the graph), slipped from 145,000 pounds in 1967 to 61,000 last year.

overtures to the People's Republic. Last year, when total imports were valued at $34.3 million, the Chinese share was worth $24.3 million.

Federal regulation affecting other businesses has produced salvos of business criticism, but U.S. fireworks manufacturers generally applaud safety rules.

The industry itself wrote new regulations through the American Pyrotechnics Association. Says Anthony Fabrizi, executive vice president of New Jersey Fireworks Manufacturing Company, "We're making better, more colorful and safer fireworks. And that has increased volume, since more localities that once banned fireworks now permit them."

The Consumer Product Safety Commission has limited the sale to the public of fireworks that go bang. Fireworks that don't—sparklers, fountains, Roman candles, pinwheels, bottle rockets—are labeled Class C and can be sold to anyone, except where local law prohibits their sale.

Class C fireworks account for perhaps 75 percent of the domestic industry's business. Class B display fireworks—the sky-filling spectaculars—are made by a small number of firms run by families: the Gruccis, Zambellis, Rozzis, Lizzas and Semenzas. They are carrying on an Old World tradition. Italians were the first Europeans to make fireworks, which were introduced by returning Crusaders.

Besides producing the Independence Day spectacles in cities and towns across the country, those family firms are responsible for commercial events like casino promotions and for celebrations sponsored by athletic teams and civic clubs. They shoot the shows themselves or provide "ship shows" to clients licensed to fire them.

The Grucci family, owners of Fireworks by Grucci/New York Pyrotechnic Products, Bellport, Long Island, has as many as 400 technicians operating in teams around the country to shoot amazingly complex Fourth of July shows.

Crews from the family-owned Zambelli Internationale Fireworks Manufacturing Company likewise fan out across the country from New Castle, Pa., to entertain huge audiences.

Those two families compete in the big leagues of fireworks—the shows in New York, Philadelphia, Washington, Boston and Chicago.

Like executives everywhere, fireworks entrepreneurs are in business for a profit, but they get something more: a special kick from lighting up the skies with wondrous effects and from knowing that their work gives pleasure to so many people.

How many? "Who knows?" replies George Zambelli. "Did you ever meet anyone who didn't like fireworks?" □

The Budget Mess On the Hill

The procedure that's supposed to make Congress keep spending in line has come under election-year strains.

BACK IN 1946, Congress decided it needed some discipline in the way it dealt with spending bills.

Under the system it had been using, individual appropriations bills were passed for various government functions without regard to an overall total.

The new plan required members to set a bottom line on spending each year and then make sure that separate appropriations bills, when combined, did not exceed that total.

But good intentions weren't enough. The discipline proved harsher than anticipated. Congress' effort to produce an overall legislative budget faltered, and the whole idea was dropped.

The soaring rate of federal spending under the guns-and-butter policies of the late 1960s and early 1970s again spotlighted the weaknesses of an appropriations process conducted without regard to the total.

The result was the Congressional Budget and Impoundment Control Act of 1974, which once again required Congress to consider spending bills within the limits of a predetermined total.

The new legislation contained safeguards to prevent some of the problems that undermined the 1946 plan. The 1974 law established, for example, a reconciliation process under which spending and tax committees can be ordered to take actions necessary to implement the overall budget resolutions.

But some members of Congress and outside specialists on federal fiscal procedures now fear that the new budget control act has come under pressures that threaten its future effectiveness.

Others agree the process isn't working as it should, but they say the system can be preserved through changes in the basic mechanism.

The budget process has been under particularly heavy stress in this election year because of the political divisions at the top levels of government—a Republican sits in the White House, Republicans control the Senate, and the House is nominally Democratic but generally controlled on major fiscal issues by a coalition of Republicans and conservative Democrats.

Concern over the viability of the budget control act reached a peak recently, when the House considered eight budget proposals and 68 amendments but failed to agree on a first budget resolution setting initial spending and revenue targets for the fiscal year beginning October 1.

"Fundamentally flawed" is how one member of Congress describes the current budget process.

Rep. Newt Gingrich (R-Ga.) described the deliberations as "three days of unending dialogue and confusion." Rep. James G. Martin (R-N.C.) said of the same experience: "Everyone had their chance for savaging each other in anticipation of the November elections."

The House finally agreed on a budget resolution more than three weeks after the deadline, but Congress is still a long way from approval of a fiscal plan under the terms of the budget reform act.

Rep. Henry Gonzalez (D-Tex.) says the budget act "is fundamentally flawed." He comments:

"The budget act did not foresee the kind of economic world that has come to exist in the past 10 years. It creates a process that cannot cope with that kind of volatile and disorderly world, a world that might lie largely outside our power to influence or control."

Rep. C.W. Bill Young (R-Fla.) says: "We have been coming to the ends of our fiscal years without meeting our budgetary deadlines. We are not appropriating on time. The use of [stopgap spending authorizations] has become the rule rather than the exception.... The process is just not workable and needs to be corrected."

Various remedies have been offered to make the act more effective and enable Congress to do a better job of meeting deadlines imposed on the budget process.

Rep. David Obey (D-Wis.), a member of the House Budget Committee, suggests a system under which there would be one overall appropriations bill to meet the bottom-line requirement of the budget resolution.

At present, Congress deals with 13 appropriations bills within the limit set by the budget resolution.

Business has contributed its suggestions to proposals for reforming the budget reform act.

The U.S. Chamber of Commerce makes the following recommendations:

- There should be a single, binding budget resolution instead of the present arrangement of a first, or target, resolution and a second, final resolution.
- The reconciliation process should be used in connection with the first budget resolution. It is now designed for use with the second.
- A multiyear budgeting schedule using the system of binding resolution and reconciliation should be adopted.
- A presidential proposal to refrain from spending funds appropriated by Congress should take effect unless specifically rejected by Congress. That would reverse the current policy, under which Congress can block such initiatives by doing nothing.
- The President should have line-item veto power on all the appropriations bills.
- All federal credit activities should be included in the budget process. □

A Special Touch In Knitwear Picking

Maritza Berger learned to knit as a little girl in her native Russia, and making clothes has been part of her life ever since.

Her first job after arriving in America nine years ago was in a Brooklyn sweater factory, where she was assistant production manager, then production manager for imported knitwear.

As a part-time student at the Fashion Institute of Technology in Manhattan, she learned to use commercial knitting machines and other textile equipment. Berger also took private lessons in weaving.

Her technical skills and knowledge of the fashion market then provided a foundation for the launching of her own business.

Basically, she combined the continuing market for "classic goods"—sweaters, scarves and stoles—with a trend toward use of natural fibers, mostly cotton, wool and silk, in traditional patterns and shades.

Last fall, Berger borrowed money from a friend and opened her own shop, Harbour Knits—part retail store, part artisan's workshop—in a posh area of New York City. The split-level shop on 65th Street off Madison Avenue includes a loom, on which the owner of the business weaves scarves and stoles in silk and wool.

"The silk scarves are the most popular item in the shop," Berger says.

She also designs and makes some sweaters on special order. Others are imported from Scotland or made by Flair Harbour, a New York company that occasionally employs her as a consultant.

"Our Flair Harbour natural-fiber sweaters sell very well," Berger says. "The styles are classic, and except for some of the dressy models, every sweater is unisex." Prices run up to about $400 for a specially designed sweater or an imported cashmere.

Recently Berger introduced handwoven baskets, some with scrimshaw designs on the covers, that can be used as handbags. She is considering weaving skirts and adding mittens and gloves to her line for next winter.

She has also opened a small shop in Amagansett, Long Island, for summer vacationers. She has added another person to her staff for the time both shops will be open. Her 12-year-old daughter, Elena, is not yet active in the business but is interested and is learning to weave and knit.

PHOTOS: MARY TUTHILL



Maritza Berger, who has a loom in her Manhattan shop, Harbour Knits, can weave scarves in designs and colors that will blend with any customer's wardrobe.

"I believe the first year is for developing the business," says Berger, "but in the second year I expect to do $200,000 in sales." Even during the first year she has found that much of her business comes from repeat sales. "Almost every customer comes back for more," she says.

Let a Newsletter Do the Walking

If subscribers to the *Hideaway Report* followed through this spring on its glowing recommendation of the Upland Goose Hotel, they got a vastly different vacation than they expected. In its September, 1980, issue, the monthly travel newsletter had praised the hotel's location for its solitude and peace.

The Upland Goose is in the Falkland Islands.

Fortunately for *Hideaway Report* readers, publisher Andrew Harper's recommendations and descriptions of exotic, out-of-the-way places aren't usually undone by world events.

Harper, 40, developed his newsletter from an avocation he had even as a youngster. "While other kids were collecting stamps or coins, I was looking for travel brochures," he says.

As he grew older, he vacationed in some of the more exotic-sounding spots and became an informal travel consultant for his friends.

"People were always telling me I should become a travel agent," says Harper, "but I decided that you have to please too many people. I had no interest in booking tours. I like interesting, out-of-the-way places that are unspoiled by crowds of tourists."

The more he thought about it, the more he became convinced that a lot of people might like those places, too. So in June, 1979, he launched his newsletter with ads in the *Wall Street Journal* and the *New Yorker*. The newsletter critiques several secluded vacation places every month, all of them checked out by Harper.

To ensure objective treatment, he pays for his transportation and lodging and travels incognito. On trips he uses his real name—Andrew Harper is a pen name and the name of his earliest traceable ancestor. His wife, Brenda, frequently goes along.

"Sometimes I get letters from people



Andrew Harper preserves his anonymity behind a copy of his *Hideaway Report*.

saying that if I tell about these places, they will be spoiled," he says. "But the places I write about can handle only a few guests and are not going to expand. The worst that can happen is that they will fill up faster and people will have to book earlier."

Harper has reviewed places as varied as castles in Scotland and resorts in the Fiji Islands. He has also reviewed several small inns across the United States. Prices at these retreats range from about $50 to $150 a day for a single room and meals.

Subscribers include professionals, celebrities, members of Congress and business executives, who sometimes use the spots for management meetings.

Now in its second year, the newsletter, which sells for $39 a year, is showing a profit. Harper counts 12,000 subscribers and expects to have 15,000 by the end of this year. He plans to limit circulation so that the hideaways will remain just that.

"Recently I listed some rentals in the newsletter, and the response was good," says Harper. "So I'm planning a second newsletter that will report on hideaway rentals. It will also sell for $39, with a tie-in price for subscribers of the other report."

He's not sure what new direction he may take after the rental report, but that doesn't bother him. He says, "I'm conservative and want to build this business slowly, block by block."

By Mary Tuthill

An Empire Built From Model Parts

"Models of industrial buildings used to be made to check the accuracy of architects' drawings," says Herb Wanderman, 64, who played a large part in changing that. "Now plans are usually developed from a drawing that was first worked out as a model."

That change began in the late 1940s when Wanderman, then a model maker for Delaware-based Industrial Models, produced a structural design of a planned Union Carbide plant to make estimating the cost of painting the plant easier. Architectural mistakes he discovered, such as two pipes designed to go into the same space and stairways that did not go where they were supposed to, saved the company $30,000—three times the cost of the model.

"I realized that if models were used from the beginning, costly errors could be discovered and quickly corrected," Wanderman says of that experience. Although companies did not rush to accept the idea, Fluor Corporation of Los Angeles hired Wanderman in 1954 as a full-time model maker. He worked evenings in his garage designing and producing scale-model beams, columns, pipes and similar structural elements, thinking that he might some day develop his own business supplying such model components.

With his employer's encouragement, Wanderman soon launched his firm, Engineering Model Associates, but continued to work for Fluor for another three years.

"I was trying to supply the parts everyone needed to make models," he says, "but in reality I was changing the technique of designing industrial plants."

Models had been made of anything available—wire, wood, even carpet tacks. "Then I saw that plastic parts could be consistent, color-coded without being painted, lightweight, bondable and in a range of sizes," Wanderman says.

He left Fluor in 1959 to devote full time to EMA. "At the time I left, Fluor management said that my models had saved them more than $80,000 a year in research and development," he says.

Today the full line of EMA model parts includes more than 7,000 components in 20 colors and six scales, including metric measures.

Until 1976, EMA was a warehousing operation. Because of the demand and the need for quality control, EMA began manufacturing almost all its own parts when sales reached $2 million. The staff has grown from half a dozen part-time workers to more than 200 full-time employes.

EMA's gross sales amounted to $8 million last year and are expected to reach $10 million this year. The company has 10 subsidiaries and several offices in cities abroad, including London, Tokyo and Milan. Exports account for 40 percent of sales.

One subsidiary, Plastruct, sells a limited range of the products to hobby stores, a market that has been growing about 30 percent a year. Film studios also use the parts for special effects. An entire city for the movie "Megaforce" and an oil refinery blown up in "Outland" were really EMA models.

It is this diverse range of markets served by EMA that has kept up sales despite the recent economic slump. Says Wanderman, "Not all of the markets are slow at the same time, I'm happy to say." □

Herb Wanderman's model parts help builders avoid costly construction errors.



Revealing Victoria's Secret



PHOTO: VICTORIA'S SECRET

With clever marketing, Roy and Gaye Raymond help men get over inhibitions about buying women's lingerie.

FOR MANY A MAN, the idea of shopping in a lingerie boutique holds about as much appeal as spilling a drink in his lap; at best, it's awkward.

Roy Raymond, 35, of San Francisco, knows the feeling well; he used to experience it every time he went to buy lingerie for his wife. Says he: "I'd find myself wanting to say, 'It's O.K.; we've been married for six years.' "

Convinced that other men shared his feelings, Raymond came up with a solution: He launched his own company, Victoria's Secret, to sell sensual and exclusive designer lingerie in an atmosphere that would set men at ease. He personally chose his saleswomen for their ability to relate to both men and women so that everyone would feel comfortable. Apparently he hit on the right formula: Half the boutique customers are men.

Raymond no longer participates in the hiring of saleswomen, but he insists that they be knowledgeable about the products so that they can coax male customers through the process of selecting garments, even when they are unsure of the size to buy.

In 1978, his first full year of business, he grossed $300,000. Sales have more than doubled every year since then, and in 1982 Victoria's Secret will generate more than $7.4 million in sales from its 60,000 mail-order customers nationwide and its four boutiques in the San Francisco Bay area.

"I never thought I would fail," Raymond says, "but neither did I expect to be this successful."

The idea for Victoria's Secret began at a party with Raymond, his wife, Gaye, and other couples. His male friends shared his feelings about shopping for lingerie. "The marketing side of me recognized an opportunity," he recalls.

With start-up capital of $120,000—his sources included a second mortgage and loans from a bank and his parents—Raymond opened a boutique that offered lacy lingerie in a Victorian setting of soft lighting, dark wood paneling and plump velvet furniture.

Translating the romantic image into mail order, which began simultaneously with the first boutique, proved challenging.

"Intimate apparel is extremely personal, so marketing it required a special touch," he says. Raymond wanted a four-color catalog. And he wanted the garments shown on real models.

The financial risk was substantial: His first catalog cost more than $40,000 to produce. But the gamble paid off. Victoria's Secret gained instant recognition in an already competitive field. The catalog's early editions are collectors' items.

AS FOR the name, Victoria's Secret, Raymond wanted to project an image of subdued elegance. "My wife and I considered a number of possibilities, but none seemed as well suited." Customers regularly write to "Victoria," and some even send poems. All get a response—signed "Victoria."

Mail orders account for about half of Raymond's business; the rest comes from boutique sales. Gaye Raymond is director of store operations.

Roy Raymond was a natural for pairing entrepreneurial spirit with marketing talent. A native of Connecticut, Raymond, when he was 13, earned enough money from mowing lawns to start his own enterprise, printing invitations and business and greeting cards. By the time he entered high school, he had five youngsters working for him on commission. "That's when I discovered how much I enjoyed operating my own business," he says.

He attended Tufts University, where he earned a B.S. in motivational psychology, and then Stanford University, where he got an M.B.A. in marketing. He worked for two firms, including a California winery, developing markets for new products. "The skills I learned were easily applied to the Victoria's Secret venture," he says.

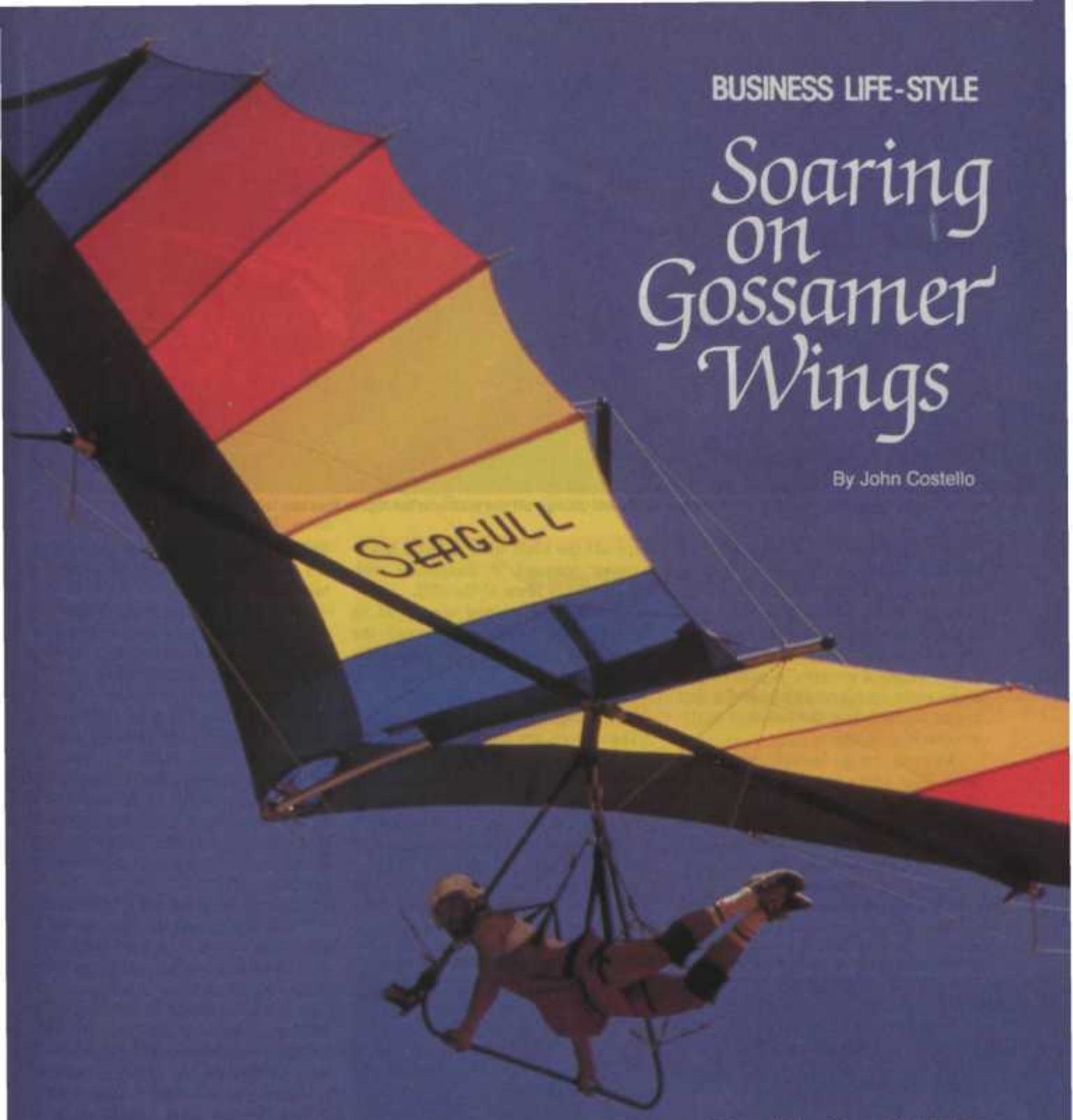
From the beginning, Raymond has incorporated marketing and sales techniques to encourage customer satisfaction. Merchandise is shipped within three days after orders are received, for example. "These things cost a little more, but they generate a lot of reorders," Raymond says.

Raymond considers Victoria's Secret "play." It's a good thing, too, because he devotes six days a week, 14 hours a day to his business. He spends Sunday with his wife and 3-year-old son.

Has success changed his life-style? "Not a bit," says Raymond, who lives in a modest San Francisco home. Eventually he would like to buy a ski chalet near Lake Tahoe. For the time being, however, he puts his profits back into Victoria's Secret.

Next month, Raymond will open a boutique in Walnut Creek; he plans only one more. He has received more than 150 offers to franchise Victoria's Secret nationwide but has turned them all down. "I want to keep the operation small so that it will stay personal," he says. "Besides, if it got much bigger, it wouldn't be as much fun." □

—Tony Velocci



BUSINESS LIFE-STYLE

Soaring on Gossamer Wings

By John Costello

Hang-glider pilots call it High Rock. It's perched at the edge of a bluff whose face plummets 1,100 feet to a farm-filled valley below. On this outcropping of hard black stone, a wooden platform about twice the size of a billiard table looks out over the void. For the Catoctin Mountains, in western Maryland, this is the top of the world. On a sunny Saturday



Lined up for takeoff: When the wind is right, pilots will plunge off the platform for flights that can last several hours.

morning, the clearing behind the launch platform is filled with a dozen waiting hang-gliders, resting awkwardly on the stony ground. Suddenly the wind sock at the lip of the cliff begins to yaw in a breeze.

"We've got a window," a pilot shouts as he picks up his ungainly glider and begins to climb over the boulders to the wooden launch site.

"Launch crew, launch crew," he calls. Four pilots scramble to hold his glider's side wires, nose and tail.

The pilot buckles his harness to the keel of the now graceful bird, its 30-foot pinions trembling in the air.

"Clear," he commands.

As the launch crew frees the brightly colored, gossamer creature, the pilot leaps off the bluff with it. For a heart-stopping moment, it disappears with him below the brow of the cliff.

Then, having gained air speed, it rises exultant, climbing toward the blue, a soft murmur of the wind in its outstretched wings.

That's hang-gliding.

Or one form of it—soaring.

Then there are those who may get only 50 feet into the air by running down sand dunes or low hills until they reach flying speed. They don't get a long ride—maybe a minute. But it seems a lot longer, a delicious slice of time, hang-glider pilots swear.

Next step: coasting down to the ground or the beach from higher hills. The pilot might ride the wind for four or five minutes, depending on how hard it's blowing or how high up he was at takeoff.

He's what the U.S. Hang Gliders Association would call a novice. But soarers fly back and forth on ridge currents or circle in thermals for hours.

With a hang-glider, a man can soar like an eagle over spectacular Yosemite Valley.



PHOTOS: LEROY F. GRANNIS

FROM THE beginning level to soaring may take a year or more. Not all hang-glider pilots make that progression. USHGA requires, among other things, a minimum of 90 flights, 30 days' flying time and the ability to make 180-degree turns for an intermediate rating. Advanced qualifications are tougher.

Takes training but not a lot of bucks.

"Your equipment—helmet, chute, instruments—runs from $200 to $1,500," says Mike Meier, president of the Hang Glider Manufacturers Association. "A new glider costs $1,600 to $2,000, and a used one $200 to $1,500."

That's for nonpowered flexible-wing kites or fixed-wing gliders. Industry sales come to about $10 million a year.

Dick Newton soars from High Rock. But he spent a long time in a hang-glider's harness before he dived off that bluff. "Three years ago," he says, "I was playing tennis with a friend at Nag's Head in North Carolina. Our wives went shopping. When they came back, they said: 'We saw some gliders we think you'd like to try.'

"The next day, we did. You go to ground school. You get full instructions on how to handle the kite, how to put it together and take it apart. Then they start you out running on the beach. You don't go up at all. That's just to give you the feel of the kite before

you're airborne. Only after that do they take you 20 or 25 feet up the side of a 138-foot sand dune.

"You have to run down it fast enough to reach airspeed—12 to 15 miles an hour. If there's not enough head wind, you run your tail off.

"I told my wife: 'Honey, all I want is to get good enough to go off the top of that 138-foot dune.' "

Now she sometimes reminds him of that hasty pledge. Seven months later, he glided off Racoon Mountain near Chattanooga. It's 835 feet high. His log book for that day reads: "From the top, baby!"

Newton, an ex-Marine pilot and the owner of Christmas Tree Corral, Marshall, Va., was over 60 when he began hang-gliding at Kitty Hawk, near Nag's Head.

What really hooked him?

"When you get that first lift, when you're soaring, it's a fantastic feeling. All of a sudden, you're going up, not gliding down. You feel like an eagle."

Three times he has soared as high as 6,100 feet.

How many Americans hang-glide? "About 20,000 are active pilots," the Hang Glider Manufacturers Association's Meier says. The Hang Gliding Association estimates the figure is 30,000. Not bad for a sport only 11 years old.

Sure, gliders go back a lot further than that. But Orville and Wilbur Wright's powered flight, in 1903, killed much interest in mere gliding. Then, at a meet held in Corona del Mar, Calif., on May 23, 1971, three pilots flew bat-like gliders. They were an instant fad. With no complicated controls, they were easy to fly, easy to roll up and carry, easy to put together.

GLIDERS FLY because the wing, as it moves through the air, pushes the air down. The air resists and pushes up against the wing. That's lift.

Air can push hard. It isn't as light as it seems. At sea level, a cubic yard of air weighs two pounds. Every second, a hang-glider moves through hundreds of yards of air. That's hundreds of pounds of air pushed down—and hundreds of pounds pushed up.

Carol F. Droge wishes more women flew hang-gliders. "I think women tend to look on the sport as something for men only," says the assistant editor for Woodward-Clyde, energy consultants, San Francisco, and a former hang-glider instructor. "I think women are better pilots than men. We don't have machismo to deal with. We don't have to get higher and fly farther than anyone else. The women I know who hang-glide do it just for personal satisfaction."

Droge, 34, is a ridge-soarer mostly. She flies a great deal about five miles south of the Golden Gate Bridge at Fort Funston. When an inshore breeze hits the 178-foot cliff there, it has nowhere to go but up. That's ridge lift.

From there she'll fly south to West Lake Cliff and back. Between are some sand dunes that also provide a boost.

"Generally," she says, "we don't get more than 200 or 300 feet above the cliffs."

What does it do for you, gliding up in the sky, nothing between you and the ground but thin air—and a prayer? Does it make you prematurely gray?

Au contraire, it's a rejuvenator.

"It's like you've found the fountain of youth," Droge says. "It adds zest to your life. And suddenly, all life's problems shrink to the size of people below you on the ground. It's a way to make molehills out of mountains."

Rob Linder describes how gliding is done: "Imagine yourself hanging by straps from the ceiling. In front of you is a control bar. Push it forward and you go up—or slow down. Pull it toward you and you go down—and speed up. Shift your weight to the right and you turn right. To the left and you turn left.

"That's what it's like in a hang-glider. But you're not suspended from the ceiling. Your harness hangs from the keel of your kite. Flying the glider is very natural. People feel comfortable with it right away."

Linder, vice president of Linder's Greenhouse, St. Paul, should know. He has been hang-gliding since 1976. He flies from bluffs at Lake Pepin, some 50 miles south of St. Paul. He began soaring there after a year and a half of rides from training hills.

"It took that long," he explains, "to develop the flying skills." Such as?

"Oh, maybe going over the falls. Going into a very steep dive when you come out of a strong thermal. That's a bubble or column of air that rises from heated ground. Inside it, you're going up maybe 500 or 600 feet a minute. The air around it is going down, just as fast.

"But gliders are designed to be stable. They tend to correct the dive themselves. They do it faster if you help."

YOU'VE SEEN IT on network TV: Torrey Pines, near La Jolla, Calif. It's a steep cliff, with the Pacific pounding on the rocks below it, and the air filled with the thunder of the surf and the shrill cries of sea birds.

Who'd look down on you if you walked away, a little pale in the gills, your knees clicking like castanets as you said: "No, thanks"? Well, Jeff Krolopp doesn't like hang-gliding there, either. For him, it's too tame.

"I like cross-country," he says. "At Torrey Pines, you're chained to the ridge. For me, mountain flying—with thermals—is a little more challenging."

Krolopp, a branch sales manager for Eaton Corporation, Anaheim, Calif., first flew in 1976, right after he graduated from college.

"At the time," he says, "I couldn't afford lessons for a private pilot's license. So I took up hang-gliding."

His favorite aeries are in the Cucamonga Mountains, near San Bernardino, Calif. "You launch at Crestline, about 3,000 feet, fly to Pine Flats, regain altitude, fly to Marshall, hook on to a thermal and fly back to Crestline."

Any goals? "I'd like to get a 100-mile flight under my belt." □

Kites That Carry a Man

Most of today's hang-gliders are flexible-wing aircraft—commonly descendants of the Rogallo wing, which was designed by National Aeronautics and Space Administration scientist Francis M. Rogallo to bring spacecraft back to earth. NASA stuck to parachutes; the Rogallo gliders developed into a sport.

A hang-glider has a center keel and two side, or leading, edges separated by a horizontal bar that is tethered to the keel inside the sail. The framework is made of aluminum tubing. The sail, made of Dacron sailcloth, is tightly stretched over the structure, which is braced on the outside with aircraft-grade stainless steel cables. Tubes inside the sail form the curves of the wings.

Each model is manufactured in three or four sizes. The average wingspan is 35 feet and provides an area of 180 square feet. Gliders usually weigh 70 pounds and support a pilot weighing up to 260 pounds.

Don't Surrender on Tax Relief

BUSINESS had a clear-cut choice in the historic debate over fiscal policy last year. On one side, President Reagan and his allies in Congress were proposing tax and spending discipline designed to shift massive resources from government to the private sector. The other side advocated continuation of long-standing policies that had, for the most part, intensified the very problems they were designed to solve.

With strong support from business groups, Reagan won that battle, and the most extensive tax relief in the nation's history is being implemented.

A new budget debate is now under way as Congress prepares for the next fiscal year, beginning October 1. From the business perspective, the issues are far more difficult and complex than they were a year ago.

Initial budget resolutions approved by both houses not only call for further spending reductions but also propose higher taxes—and still provide for deficits in the $100 billion range.

Thus far, those steps are only general goals, and it remains for Congress to implement them through its procedures for appropriating money and raising new revenues.

So the real battles are still ahead, and the manner in which business approaches them could be important to the long-term success of last year's initiative to restore restraint to U.S. fiscal policy.

Unfortunately, the business community has been divided on a plan for fiscal 1982-83.

In the hope of gaining a quick resolution to the budget battles in Congress, some business groups have endorsed proposals for higher taxes. The endorsements have come before there has been any detailed discussion of just what form the new taxes would take and how they would be applied.

Some of the business groups that have rushed to support the idea of higher taxes may come to regret their haste when they themselves become the targets of the higher levels.

About the only thing that can now be said for certain about any new taxes is that they will be imposed almost entirely on business—a move Congress usually considers politically safe in an election year.

One major business organization, however, is standing firm against any tax increases before the promised tax relief of 1981 becomes fully effective.

The U.S. Chamber of Commerce Board of Directors has reaffirmed its opposition to major tax increases at this time.

It acted on recommendation of its tax committee, which declared, "Tax increases would undermine the intent of the Economic Recovery Tax Act and prolong the recession."

The basic purpose of that act was to allow businesses and individuals to retain more of their earnings. Money that would have gone to the tax collector was freed to help stimulate the economy.

To the extent that taxes are raised, they would slow that process. This should not be allowed to happen. The recovery is still too fragile to subject it to such dangers.

Business should unite on that stand and oppose the pending tax-increase proposals, recognizing that such opposition is a contribution to the kinds of economic growth and stability that President Reagan set out to achieve when he took office. □

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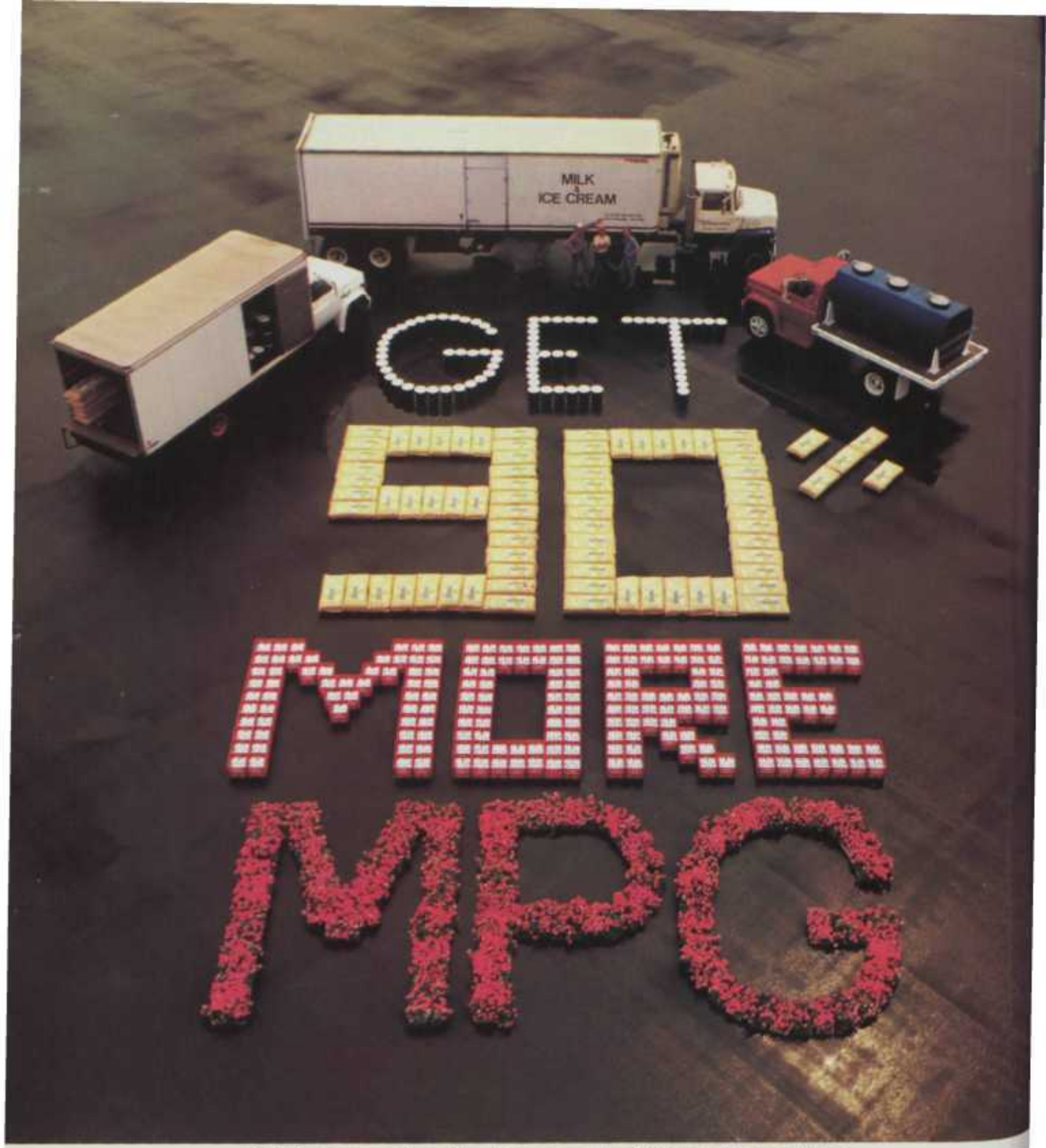
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